Kawasaki

Annual Report 2008

Year ended March 31, 2008

KAWASAKI HEAVY INDUSTRIES, LTD.

Founded in 1878, Kawasaki Heavy Industries, Ltd. (KHI), is a leading global comprehensive manufacturer of transportation equipment and industrial goods. With a broad technological base that encompasses mastery of the land, sea, and air, the KHI Group manufactures ships, rolling stock, aircraft and jet engines, gas turbine power generators, environmental and industrial plants, and a wide range of manufacturing equipment and systems. KHI also produces such world-famous consumer products as Kawasaki-brand motorcycles and personal watercraft.

Contents

Forward-Looking Statements

Forecasts regarding the Company's plans and strategies contained in this publication were prepared based on information available at the time the forecasts were prepared. The Company's actual performance may differ from the forecasted figures due to a range of factors.

Cover:

The facility shown on the cover recovers the heat from gas emitted by cement plants and uses it to generate electricity. In the case of a standard cement plant (with two 5,000 ton kilns), such electric power generation facilities can reduce the consumption of electricity for the plant as a whole by about 30%, thus contributing to energy conservation. In addition, since such facilities generate power without the use of fuel, they can substantially reduce the burden on the natural environment, including cutting back CO_2 emissions.

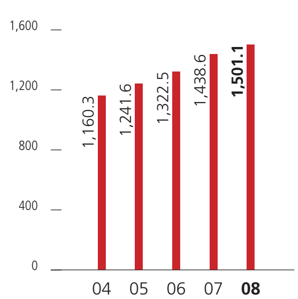
Consolidated Financial Highlights

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
Years ended March 31

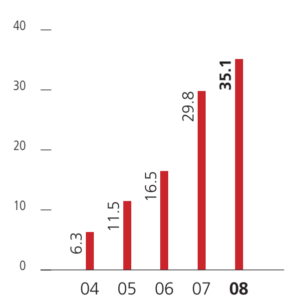
	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
For the year:				
Net sales	**¥1,501,097**	¥1,438,619	¥1,322,487	**$14,981,008**
Operating income	**76,910**	69,142	41,795	**767,565**
Net income	**35,141**	29,772	16,467	**350,709**
Net cash provided by operating activities	**75,766**	45,859	45,761	**756,148**
Capital expenditures	**50,538**	39,269	41,724	**504,371**
Per share (in yen and U.S. dollars):				
Earnings per share—basic	**¥21.1**	¥18.9	¥11.2	**$0.21**
Earnings per share—diluted	**20.6**	17.2	9.4	**0.21**
Cash dividends	**5.0**	5.0	3.0	**0.05**
At year-end:				
Total assets	**¥1,378,770**	¥1,357,980	¥1,284,085	**$13,760,180**
Total net assets	**319,038**	295,378	243,096	**3,184,012**
Orders received and outstanding:				
Orders received during the fiscal year	**¥1,610,757**	¥1,592,688	¥1,351,631	**$16,075,419**
Order backlog at fiscal year-end	**1,533,663**	1,465,155	1,310,444	**15,306,018**

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥100.20 to US$1, the approximate rate of exchange at March 31, 2008.

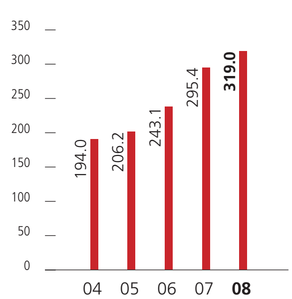
Net Sales
(Billions of yen)



Net Income
(Billions of yen)



Total Net Assets
(Billions of yen)



Tadaharu Ohashi, President

Our Mission:
Creating New Value for a Brighter Future and a Better Environment

Review of Fiscal 2008

During fiscal 2008, ended March 31, 2008, the Japanese economy experienced a generally firm performance in the first half of the year, despite some destabilizing factors. In the second half, however, the uncertainty increased as a result of the marked increase in prices of raw materials and consumer goods that accompanied the rise in crude oil prices, the decline in stock market prices, the appreciation of the yen against the U.S. dollar, and other factors. Overseas also, economic conditions were generally stable during the first half of the year, but, in the second half, while economic conditions continued to be strong in China and other countries, a number of factors brought instability to the economic environment. These included the contraction of credit and the deceleration of economic growth in the United States and certain countries in Europe, accompanying the emergence of the subprime loan crisis in the United States and other factors.

Amid these economic conditions, orders won by the Kawasaki Heavy Industries (KHI) Group amounted to ¥1,610.8 billion, ¥18.1 billion, or 1.1%, higher than in the previous fiscal year, mainly due to the receipt of a substantial number of orders for bulk carriers in the Shipbuilding segment. Net sales rose to a record high for the third consecutive year, driven particularly by expansion in sales of the Shipbuilding and Consumer Products & Machinery segments, and amounted to ¥1,501.1 billion, ¥62.5 billion, or 4.3%, higher than in the previous fiscal year.

Operating income increased ¥7.8 billion, or 11.2%, over the previous fiscal year, to ¥76.9 billion, boosted by the decline in the value of the yen against the U.S. dollar in the first half of the fiscal year and the return to profitability of the Shipbuilding and Plant & Infrastructure Engineering segments. Net income expanded ¥5.4 billion, or 18.0%, to ¥35.1 billion. Both operating income and net income figures were at record high levels for the second consecutive year.

Our basic dividend policy is to continue to pay stable cash dividends that are appropriate to our performance while paying careful attention to expanding retained earnings to strengthen and expand the KHI Group's management base to prepare for future growth. Based on this policy, and after an overall appraisal of performance and other factors, we proposed and received approval from shareholders to pay an annual cash dividend of ¥5.0 per share for fiscal 2008.

Management Policies and Objectives

Last year, we issued a new Kawasaki Group Mission Statement:

"Kawasaki, working as one for the good of the planet—
>We are the Kawasaki Group, a global technology leader with diverse integrated strengths.
>We create new value—for a better environment and a brighter future for generations to come."

Based on this statement, our basic management policies are to work to increase customer satisfaction by offering superior products and services that are differentiated by technology and the Kawasaki brand, increase the corporate value of the KHI Group, and meet the expectations of our shareholders as well as customers, employees, and the community.

Target Management Indicators

With the aim of satisfying the expectations of investors for profitability, the principal management target indicator we have adopted is before-tax return on invested capital (ROIC), defined as earnings before interest and taxes (EBIT) divided by invested capital. As we work to maximize ROIC, we are aiming to strengthen our financial position as well as expand profits. Moreover, under our Medium-Term Business Plan "Global K," we are working to strengthen profitability and have added the ratio of recurring profit* to net sales as another key management indicator.

* Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expenses), dividend income, and other non-operating and recurring items.

Medium-Term Management Strategy

The KHI Group is currently implementing its Medium-Term Business Plan entitled "Global K," which began in fiscal 2007, and will continue through the end of fiscal 2011. When preparing Global K, we expressed our vision of what the KHI Group should become over the next 10 years in the phrase, "Enriching lifestyles and helping safeguard the natural environment: Global Kawasaki." We selected three management concepts: namely, "quality followed by quantity," "selectivity and concentration," and "creation of new value" to guide our activities and are now aiming to make the leap to a highly profitable global enterprise focusing on land, sea, and air transportation systems on the one hand and the energy and environmental engineering fields on the other.

Thus far, we have made steady progress toward the objectives of our Global K plan, but the operating environment in recent months has become quite challenging. Factors accounting for this have included the deterioration of economic conditions in Japan, Europe, and the United States; soaring prices of raw materials; increased subcontracting costs; the shortage of skilled and experienced labor; and the appreciation of the yen against the U.S. dollar.

To cope with these changes in the currents of the times, we of the KHI Group have committed ourselves to implementing the following three initiatives:

- Improving procurement systems to deal with rising material prices,
- Dealing with the appreciation of the yen by increasing the number of contracts denominated in yen and transactions in multiple currencies, increasing U.S. dollar denominated costs by enhancing overseas production, and making effective use of currency hedging and other techniques, and
- Coping with the deceleration of the world economy by reducing fixed costs, developing new markets, and implementing flexible sales strategies.

To prepare the way for the next stages of growth in the medium-to-long term, we are conducting an interim review of the Global K plan. In this review, we are examining carefully the strategy, implementation measures, the allocation of resources, and other related issues for each business and product in light of market trends and competitiveness. Through this steady business management approach, we are aiming for the KHI Group as a whole to reach its medium-term objectives by fiscal 2011.

The strategies for individual businesses under the Global K plan are as follows. First, in the Rolling Stock & Construction Machinery, Aerospace, Gas Turbines & Machinery, and Consumer Products & Machinery segments, which are the earnings base of the KHI Group, we are working to maintain and expand our earning power by implementing the following measures.

- In the Rolling Stock & Construction Machinery segment, which is continuing to receive high levels of orders in North America and in other areas, we are strengthening our business operating systems in the three major markets of Japan, North America, and Asia outside Japan.
- Within the Aerospace segment, we are moving forward steadily with the conduct of major projects, including making preparations to begin the full-scale production of the XP-1 next maritime patrol aircraft, completing the development of the C-X next transport aircraft, and expanding production of the Boeing 787.
- In the Gas Turbines & Machinery segment, we are expanding sales of existing products, including jet engines for commercial aircraft and industrial gas turbines, for which demand continues to be strong. We are also moving forward with the development of new products within these existing product categories, while actively working to expand business activities in new product areas, such as high-efficiency gas engines.
- In the Consumer Products & Machinery segment, motorcycles for the industrialized markets, a major, high-priority business in the segment, are facing tough market conditions because of the effects of the subprime loan crisis and other factors. We are taking steps to improve the profitability and product competitiveness of our motorcycles for those markets, while endeavoring to strengthen our development and production systems at the global level.

Next, in our Plant & Infrastructure Engineering segment, in fiscal 2008, we completed the drastic reforms that we have been implementing in recent years. Going forward, under the new business structure for this segment, with Kawasaki Plant Systems, Ltd., as its core, we have adopted policies to accelerate the development of the energy and environmental engineering businesses as cited in our Global K plan.

In addition, we are steadily strengthening our earnings base and expanding the business operations of the Shipbuilding segment operated by Kawasaki Shipbuilding

Corporation and the Hydraulic Machinery segment conducted by Kawasaki Precision Machinery Ltd. Looking ahead, the KHI Group will provide support for these subsidiaries and implement the following measures.

- In the Shipbuilding segment: Strengthen optimal production systems for the Kawasaki Shipbuilding Group, including its operations in China
- In the Hydraulic Machinery segment: Invest management resources flexibly and strengthen its global operating system with bases in five geographic regions: Japan, the United States, Europe, China, and Korea.

In our industrial robots and construction machinery businesses, we will aim to increase the value of these business operations by implementing the original strategy of these businesses to establish a position as a specialist in their respective markets and draw fully on their autonomy within the context of Group management.

Compliance and Internal Controls

To conduct the business activities previously mentioned successfully, I must emphasize that compliance with applicable laws and regulations will be a major precondition. We of the KHI Group have taken "We will absolutely not engage in illegal activities" as our basic guideline for our business activities. To promote compliance, our CSR Department has taken a leadership role in preparing internal rules and regulations regarding corporate ethics and in conducting compliance training activities for various levels of management and staff, distributing various types of guidebooks, and creating autonomous inspection committees within each of our organizational units.

In addition, based on our Group mission, as set forth in the Kawasaki Mission Statement, we will aim to strengthen our corporate systems to make them more efficient and ensure KHI's adherence to relevant laws and work to maintain and improve KHI's internal control systems. During fiscal 2008, in view of the implementation, beginning with fiscal 2009, of internal control reporting systems based on the Financial Products & Exchange Law in Japan, we established a specialist unit for the KHI Group as a whole in the CSR Department, with the goal of ensuring the appropriateness of financial reporting. We also took measures to put in order KHI's Company rules and regulations relating to internal control systems.

Going forward, we will continue to take thoroughgoing organizational initiatives to promote compliance and enhance internal controls and, along with these initiatives, work to create a corporate culture that places highest priority at all times on information disclosure and transparency.

The KHI Group will work to increase its enterprise value by strengthening profitability throughout its business operations and placing strong emphasis on compliance and internal controls, with the aim of building further trust in the Kawasaki brand. We look forward to the continuing support and cooperation of you, our shareholders.

June 2008

T. Ohashi

Tadaharu Ohashi
President

Q: How would you evaluate KHI's results for fiscal 2008?

Fiscal 2008, ended March 31, 2008, was the second year under our Global K Medium-Term Business Plan. As in the previous fiscal year, net sales and net income set new records for the KHI Group. The positive factors in the business environment more than offset the negative influences. Positive factors included the decline in the value of the yen in the first half of the fiscal year and growth in newly emerging economies, such as China. On the other hand, negative influences included rising costs, such as—first and foremost—the increase in material prices and the continued decline in public-works projects in Japan.

Under Global K, we have made steady progress over the past two years toward strengthening the KHI Group's earnings base by making reforms in or withdrawing from unprofitable business and boosting the profitability of individual businesses. The Shipbuilding segment and Plant & Infrastructure Engineering segment reported profits for fiscal 2008, thus bringing all KHI Group operating segments into the black. The Plant & Infrastructure Engineering segment especially reported a sharp improvement in operating income, to ¥10.8 billion. This was the first time in four years the segment had turned a profit; this improvement in profitability gave clear evidence of the success of our structural reforms.

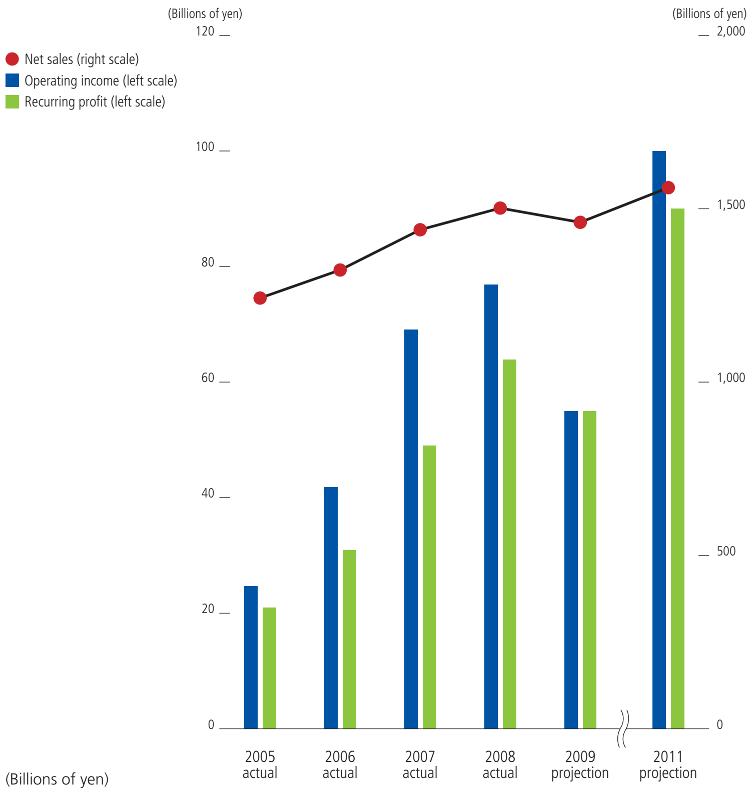
Also during fiscal 2008, in line with the priority policies set under the Global K plan, we conducted an overall review of subsidiaries and affiliates, and made it clear that we would promote the development of the energy and environmental engineering businesses. In addition, to clarify and further develop our corporate vision under Global K, we prepared our Kawasaki Mission Statement. In this sense also, I believe fiscal 2008 was a year of important accomplishments.

Q: You are confronting some major challenges in the operating environment, including the sharp increase in prices of crude oil and steel materials as well as the decline in the value of the U.S. dollar. Will these issues have an effect on progress under the Global K Medium-Term Business Plan?

You are correct. Certainly around late last year, economic conditions around the world began to weaken rapidly, and the operating environment took a turn for the worse because of developments,

We have completed our structural reforms. We are now steadily moving toward the next stage in our growth.

Sales and Profit Trends of the KHI Group
Years ending March 31



(Billions of yen)	2005 actual	2006 actual	2007 actual	2008 actual	2009 projection	2011 projection
● Net sales	¥1,241.6	¥1,322.5	¥1,438.6	¥1,501.1	¥1,460.0	¥1,560.0
■ Operating income	24.7	41.8	69.1	76.9	55.0	100.0
■ Recurring profit	21.0	30.9	49.1	64.0	55.0	90.0
Ratio of recurring profit* to net sales	1.7%	2.3%	3.4%	4.3%	3.8%	5.8%
Before-tax ROIC	4.8%	5.1%	8.7%	11.2%	9.4%	14.0%
Foreign exchange rate**	¥108/US$	¥112/US$	¥117/US$	¥115/US$	¥100/US$	¥105/US$

* Recurring profit: See page 3.
**Exchange rates are calculated on a sales weighted average basis.

such as the decline in the value of the U.S. dollar and the increase in raw material prices. The net sales and profit of the KHI Group have risen steadily since fiscal 2005, but there is a strong possibility that this year, fiscal 2009, we may reach a temporary plateau in performance. Accordingly, we are working hard to cut material costs and outsource expenses, increase the percentage of costs denominated in U.S. dollars, and reduce fixed costs. Despite this, however, it is our judgment that even now the KHI Group as a whole is still on the medium-to-long term growth trend set under the Global K plan.

At present, we are conducting an interim review of Global K, as we scheduled when we initially launched the plan. Our appraisal is that, even now, provided the yen remains at ¥105 to the U.S. dollar, we are still on track to meet our profit targets for fiscal 2011. Those are ¥100 billion in operating income and ¥90 billion in recurring profit. In fiscal 2007 and fiscal 2008, the first two years under Global K, we completed the KHI Group's structural reforms, and we have entered a new stage when we will make major strides forward toward our goal of becoming "a highly profitable global enterprise."

Q: What are your strategies for your core businesses and how are they faring at present?

Among our four core businesses, in the Rolling Stock field, we are implementing a medium- to long-term strategy with emphasis on overseas markets. Although demand for rolling stock in Japan has emerged, including cars for the *Shinkansen* and other lines, demand is especially strong in overseas markets, including the advanced and the newly emerging economies. To meet demand from the production side, we have retooled a portion of our Harima Works to manufacture rolling stock. That brings our total number of production bases around the world to four. The first three are the Hyogo Works, our main rolling stock plant, and two plants in the United States in Lincoln, Nebraska, and Yonkers, New York. Right now, we are also investing to double capacity at the Lincoln plant, and the new facilities are scheduled to go into operation shortly.

In the Aerospace segment, activity in three major developing projects, the XP-1 and C-X large-scale defense aircraft and the Boeing 787, is approaching the final stages. Of these three, we are scheduled to begin deliveries of the XP-1 at the end of August this year. Development work on the other two aircraft is proceeding to ready them for their first flights. At present, we are building a new plant in Nagoya to handle increased production related to the Boeing 787, and, for the time being, major capital investments and R&D expenditures will be necessary. Upon the completion of development work, however, we want to move smoothly into volume production and make these activities a principal source of earnings for the KHI Group going forward.

We are working toward the steady expansion of our energy-related and transportation-related activities within the Gas Turbines & Machinery segment. Performance of gas turbine electric power generators for emergency and regular use continues to be favorable, and, at present, we are aiming for early firm orders for our ultralow NO*x* emission gas engine, which we developed in fiscal 2007. This engine is the most efficient of its kind in the world, and is smoothly undergoing testing. Also, in response to the increase in orders for the V2500 jet engine, we are expanding production, while continuing preparations for volume production of the TRENT 1000 jet engine, which will power the Boeing 787. In addition, as a result of strong conditions in the shipping market, orders for ship equipment are continuing to be strong. In fiscal 2008, we expanded production capacity for jet engine production at our Kobe Works, and, during the current fiscal year, we are investing in additional capacity for marine equipment and systems at our Harima Works and Kobe Works.

In the Consumer Products & Machinery segment, the operating environment has become challenging in our core motorcycle business because of the downturn in the U.S. economy, adverse foreign currency movements, and other factors. In the industrialized nations, which are the core markets for these motorcycles, we are working to create an even stronger brand image that equates the Kawasaki brand with high performance. To this end, we are strengthening our development and design capabilities. Also, we are adopting a strict front-loading approach in our development activities, and, in Southeast Asia, working to reduce costs by strengthening our production and procurement.

Q: What management directions are you planning to take in the energy and environmental engineering businesses, which you are strengthening to build as a new earnings base?

The worldwide markets for the energy and environmental engineering businesses are expanding robustly, and, going forward, we expect demand to continue to grow in these areas. The KHI Group has a broad range of technologies to respond to the needs of customers in these businesses, and, therefore, under Global K, we are making effective inputs of management resources into the energy and environmental engineering businesses to develop these activities into powerful pillars of KHI Group operations. At present, the core of these business activities is Kawasaki Plant Systems (K Plant), and we are working to strengthen its business activities. Also, we believe that a cross-divisional business concept is conceivable. For example, in the natural gas-related business, systems span a range of activities. These begin with activities requiring machinery for transporting gas from offshore platforms located in the vicinity of undersea gas fields to land bases, vessels for transporting gas, storage tanks, and power-generation systems. With our technology and comprehensive Group capabilities, we are positioned to expand our activities in the energy area all along the supply chain. We believe it will also be important to forge future-oriented business concepts from a long-term perspective.

Q: What is the outlook for the three KHI Group companies Kawasaki Shipbuilding Corporation, Kawasaki Plant Systems, and Kawasaki Precision Machinery?

Conditions in the shipbuilding business are highly favorable around the world. Kawasaki Shipbuilding Corporation is continuing to strengthen in its technology for high-value-added vessels, principally gas carriers and submarines, while also strengthening the cost-competitiveness of its joint venture in China, Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS). In line with these policies, Kawasaki Shipbuilding Corporation has redesigned the layout of both its Kobe and Sakaide shipyards for greater efficiency. Also in May 2008, NACKS began operations at its No. 2 dock that was under construction as part of that company's second-phase expansion program and ship construction has begun. Its additional capacity through this program will make possible business expansion and improvement in earnings power.

K Plant, which is responsible for KHI's Plant & Infrastructure Engineering segment, is also reporting a strong performance as a result of strict policies of the selective acceptance of orders and thoroughgoing risk management and worldwide expansion in energy demand. K Plant's joint venture in China with the CONCH Group, which is engaged in supplying waste heat recovery power generation systems for cement plants, is reporting robust expansion. Our policy will be to expand this business further. As I said a moment ago, K Plant is the core company in the energy and environmental engineering areas, which KHI is working to strengthen under its Global K medium-term plan. Through these activities, we are drawing on various energy-saving technologies and environmental technologies to develop K Plant's activities globally while contributing to environmental preservation around the world.

Kawasaki Precision Machinery is reporting steady growth, principally in its core business of hydraulic equipment for power shovels, and the importance of its businesses within the KHI Group is growing. This company is working to upgrade its production and sales centers around the world, which include production bases in Japan, Europe, China, and Korea and a marketing center in the United States. Through these activities, KPM is working to significantly raise its presence among manufacturers in the world's hydraulic shovel market, while also aiming to enter new markets through the development of combined electro-hydraulics technologies. To respond its increasing work volume, Kawasaki Precision Machinery built a new plant on the

grounds of its Kobe headquarters plant, but is scheduling further additions to its production facilities this fiscal year.

Q: The KHI Group is making substantial capital investments. How is this impacting your financial position?

Strengthening the KHI Group's financial position has been an issue for some time, but as performance has improved in recent years, we have made steady progress toward reducing interest-bearing debt. At the end of fiscal 2008, interest-bearing debt stood at ¥276.4 billion, and the debt-to-equity (D/E) ratio was 82%. Under our medium-term plan, the target is to reduce the D/E ratio to 100% or less, but along with the increase in capital investments for business expansion going forward, the outlook is for an increase in interest-bearing debt.

We are planning to increase capital investments this fiscal year by a multiple of two over the previous fiscal year, to ¥110 billion. Under Global K, we were planning on total investments over five years of ¥300 billion, but because of the need to increase production to meet demand, we believe, at present, that the total amount of capital investments will exceed ¥350 billion.

Looking ahead, we will give close attention to our financial position and will use every means at our disposal to keep the D/E ratio below 100% and increase our return on capital. After the KHI Group attains the objectives of Global K, to continue to grow, it will be necessary to make aggressive investments in R&D and capital. Accordingly, we intend to make the investments that are needed in the medium-to-long term.

Q: In closing, do you have a special message you would like to give to KHI shareholders?

As I mentioned previously, the KHI Group has completed its structural reforms and is now poised to move toward the next stage in its growth. This fiscal year will be the midpoint in our Global K plan and will be a crucial time for confirming where we stand as well as take the necessary measures to secure growth going forward. The deterioration in the operating environment is a major cause for concern, but in the medium-to-long term, my judgment is that the growth potential and power of the KHI Group is steadily increasing. We are committed to continuing to exert our fullest efforts to reach the goals of Global K and look forward to the support and cooperation of our shareholders.

Shipbuilding

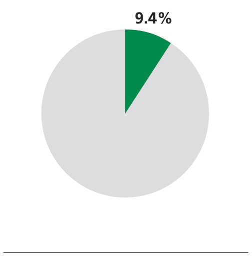
Main Products

- LNG carriers
- LPG carriers
- Container ships
- VLCCs (Very Large Crude Carriers) and other types of tankers
- Bulk carriers
- High-speed vessels
- Submarines
- Maritime application equipment

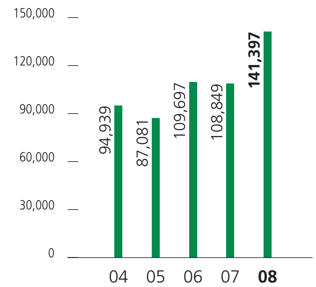
LNG carrier *CELESTINE RIVER*

Submarine *MOCHISHIO*

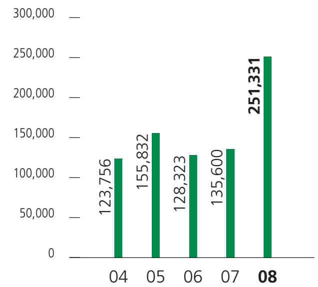
Percentage of Net Sales



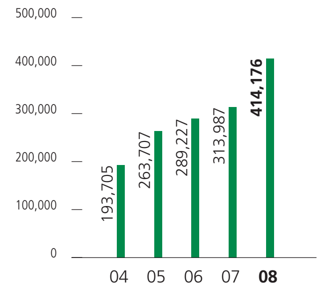
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

Due to strong conditions in world shipping markets, global order volume for bulk carriers remained at a high level and newbuilding prices were also high during fiscal 2008. Amid this operating environment, the Shipbuilding segment secured orders for 28 vessels: namely, two LNG carriers, three LPG carriers, 22 bulk carriers, and one submarine. As a consequence, total orders received increased ¥115.7 billion, or 85.3%, to ¥251.3 billion.

Sales reported in fiscal 2008 rose ¥32.5 billion, or 29.9%, to ¥141.4 billion.

The segment reported an operating income of ¥3.3 billion, which represented a ¥5.5 billion improvement from the ¥2.2 billion operating loss reported in fiscal 2007. This rise in operating income was due to higher sales and an improvement in operating margins.

In newbuilding activity, the segment delivered 11 vessels in all: namely, two LNG carriers, two LPG carriers, one VLCC, five bulk carriers, and one submarine.

Outlook

Kawasaki Shipbuilding Corporation, which is the core company of this segment, has an extensive track record in building gas carriers and submarines, which require advanced design and construction technologies. Its vessels continue to win high marks from customers for their performance and quality.

Following the delivery in 1981 of the first LNG carrier built in Japan, we have established ourselves as a pioneer in this field. We offer a wide-ranging lineup of LNG carriers, extending from small carriers with cargo tank capacities of 19,000m^3 to larger carriers of more than 150,000m^3. We have also developed and offer in our lineup a pressure build-up type LNG carrier for short-distance and small-volume transportation. In addition, in fiscal 2008, we developed a large-scale LNG carrier with a cargo tank capacity of 177,000m^3 and received two orders for this new vessel. Looking ahead, to respond to customer needs, we will draw on cutting-edge technologies to develop new-type LNG carriers.

Nantong COSCO KHI Ship Engineering Co., Ltd. (NACKS), which Kawasaki Shipbuilding Corporation established as a joint venture with China Ocean Shipping (Group) Company, has now marked the 13th year of operations since its founding and has become one of the leading shipbuilding companies in China. To respond to burgeoning demand for the construction of large-scale vessels in China and elsewhere, NACKS began construction work on its second expansionary phase in 2005. As part of this phase, NACKS began operations at its second shipbuilding dock in May 2008, and the construction of new vessels in this facility has commenced. In addition to the building of the second dock, NACKS has expanded and strengthened its capacity for internal fabrication, assembly, and painting in each of its facilities. Also, NACKS is working to expand its capacity substantially by extending the length of its outfitting quay.

Kawasaki Shipbuilding Corporation and its group of companies, including NACKS, are endeavoring to enhance their technologies related to ship design, manufacturing, and quality assurance to reinforce their ability to compete globally in terms of both quality and costs and thus sustain their development into the future.

Rolling Stock & Construction Machinery

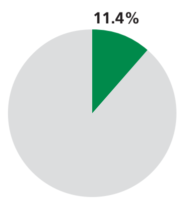
Main Products

- Electric train cars (including for Shinkansen bullet trains)
- Electric and diesel locomotives
- Passenger coaches
- Integrated transit systems
- Monorail cars
- Platform screen doors
- Wheel loaders

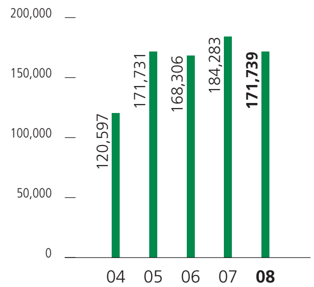
Series 10000 subway cars for the Traffic Bureau of Yokohama City

Wheel loader Authent 115ZV-2

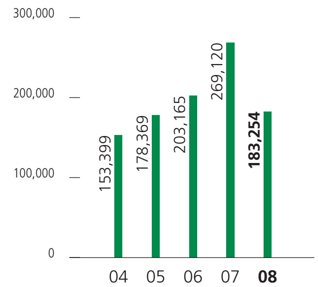
Percentage of Net Sales



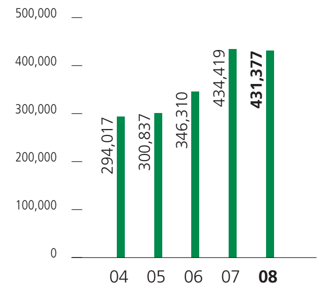
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

During fiscal 2008, demand for rolling stock remained strong in North America, Japan, and elsewhere in Asia. In Japan, orders were received from the Japan Railways Group for *Shinkansen* trains, commuter train cars, locomotives, freight cars, and other rolling stock. Orders were also obtained from both public and private railway companies for subway cars, commuter train cars, and other rolling stock. Additional orders from overseas customers included those from the New York City Transit Authority and other sources. However, in comparison to the previous fiscal year, when major orders were obtained from overseas customers, orders during the fiscal year under review declined ¥85.9 billion, or 31.9%, from a year earlier, to ¥183.3 billion.

Even though deliveries of rolling stock to the Japan Railways Group expanded during fiscal 2008, deliveries to overseas customers declined. As a consequence, overall sales of this segment declined ¥12.5 billion, or 6.8%, to ¥171.7 billion. Sales of construction machinery were at approximately the same level as in the previous year, despite declines in sales in North America, as exports to other areas expanded. Along with the overall decline in sales of this segment, operating income decreased ¥6.0 billion, or 45.5%, to ¥7.2 billion.

Outlook

In recent years in the industrialized countries, there has been a pronounced "modal shift" to the use of railways as the principal means for mass transportation because of the lower burden on the natural environment. In addition, the number of new projects for the construction of urban transport and interurban transport systems has increased in the newly industrializing countries. Expansion in demand for rolling stock is expected to continue on a global basis in the long term.

As Japan's largest manufacturer of rolling stock, KHI is working aggressively to meet this rising demand and is working to expand and upgrade its production systems, which are located in Hyogo and Harima in Japan and in Lincoln, Nebraska, and Yonkers, New York, in the United States. Of special note is the segment's Lincoln plant, which originally went into operation as a fully integrated rolling stock production facility in 2002. At present, work on a new facility that will double the production capacity of the Lincoln plant is under way and is scheduled for completion in the near future. In Japan, along with the Hyogo Works, which is the "mother factory" for Kawasaki's worldwide rolling stock operations, the Harima Works has recently begun manufacturing a portion of Kawasaki's rolling stock output.

In new product development, Kawasaki completed its next-generation light rail vehicle (LRV), dubbed SWIMO, in fall 2007, and work is currently under way to introduce this leading-edge LRV to the market. SWIMO is powered by KHI-developed onboard nickel-metal hydride Gigacell® batteries and is capable of running for more than 10 kilometers without a supply of electricity from overhead lines. The SWIMO has features that are friendly to human beings and the natural environment, including a spacious, barrier-free configuration with a low floor. SWIMO also has a regenerative electric power system that achieves substantial energy conservation by accumulating the power generated when the LRV's brakes are used.

In the construction machinery business, adjustments in the U.S. market are expected to continue, but high rates of growth are expected to prevail in the markets of the Middle East, Asia outside Japan, Eastern Europe, Russia, and elsewhere. Activities are in progress to upgrade Kawasaki's global sales and service systems for construction machinery, focusing on the ZV 2-Series wheel loader, and to significantly enhance the presence of the Kawasaki brand through supplying advanced products that are environment-friendly and incorporate energy-saving features.

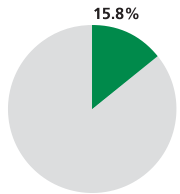
Aerospace

Main Products
• CH-47, OH-1, and BK117 helicopters
• Component parts for the Boeing 777 and 767 passenger airplanes
• Component parts for the Embraer 170 and 190 jet aircraft
• Missiles
• Electronic equipment
• Space equipment

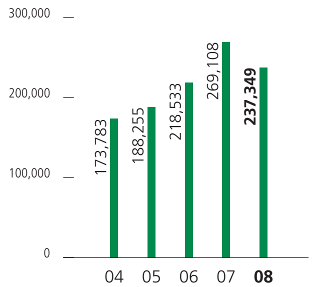
XP-1, the next maritime patrol aircraft

Boeing 787 Dreamliner

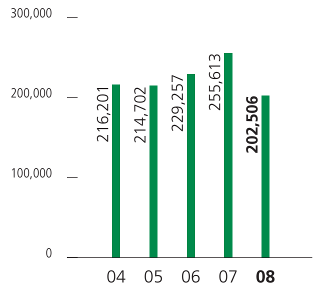
Percentage of Net Sales



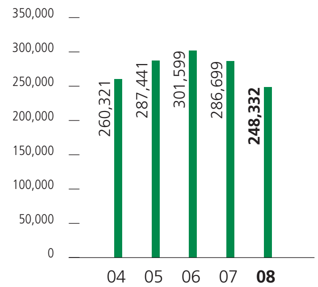
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

Orders received in the Aerospace segment were ¥53.1 billion, or 20.8%, lower than for the previous fiscal year and amounted to ¥202.5 billion. Although the segment continued to receive orders for component parts for the Boeing 787 and Boeing 777, orders for aircraft from Japan's Ministry of Defense (MOD) declined from the prior year.

This segment's sales declined ¥31.8 billion, or 11.8%, to ¥237.3 billion, owing to lower sales to the MOD. Along with the decline in sales, operating income receded ¥2.5 billion, or 18.8%, to ¥10.9 billion.

Outlook

KHI is the prime contractor for the development of the MOD's large-scale XP-1 and C-X aircraft, which have been ongoing since 2001. KHI has acted as the core company and spearheaded the simultaneous development of these two aircraft types. These are the largest aircraft projects being implemented currently in Japan. Since the maiden flight of the first XP-1, the next maritime patrol aircraft, in September 2007, development has proceeded smoothly, and the first XP-1 is scheduled to be delivered to the MOD in August 2008. The first flight of the C-X, the next transport aircraft, will take place shortly, and the first C-X will be delivered to the MOD during the current fiscal year.

In the commercial aircraft field, development work on Boeing's cutting-edge 787 Dreamliner passenger aircraft, which features advanced design and employs revolutionary production technology, is drawing to a climax. KHI is a partner corporation in the development and production of the 787 Dreamliner and is responsible for the forward section of the composite, one-piece-structure fuselage, which is the world's first to be used in a commercial aircraft, as well as other key components.

The Boeing 787 is scheduled to go into service next year, and, to date, orders have been received for approximately 900 aircraft. Accordingly, to be prepared for the commencement of full-scale production, KHI is currently building another new, dedicated facility on the south side of its Nagoya Works 1, which will be the second such dedicated facility for producing key 787 components following the facility completed at the Nagoya Works 1 in 2006.

Accompanying progress on these two major development projects in the Aerospace segment, one for defense aircraft and the other for commercial aircraft, up-front capital expenditures and development expenses are expected to run ahead of revenue streams. However, both projects are extremely important and will have a major impact on the future of KHI's aerospace business. KHI is committed to successfully executing these two projects and the creation of a production structure and capabilities for both MOD-commissioned and commercial aircraft that will reinforce its operational foundation for the long term and put KHI solidly on the road to future growth.

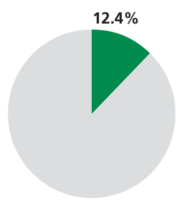
Gas Turbines & Machinery

Main Products
- Jet engines
- Small and medium-sized gas turbine generators
- Gas turbine cogeneration systems
- Gas turbines for naval vessels
- Steam turbines for marine and industrial applications
- Diesel engines and marine propulsion systems
- Gas engines
- Aerodynamic machinery

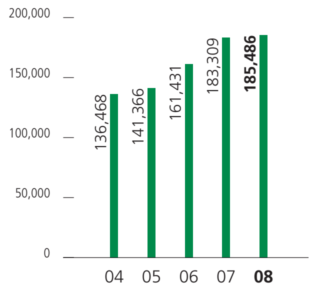
15.9 MW gas turbine cogeneration system for MC Shiohama Energy Service Corporation

Kawasaki Green Gas Engine

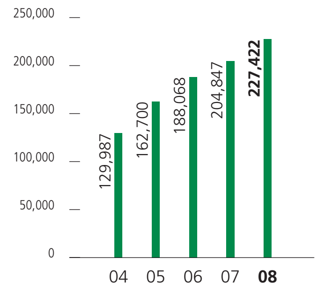
Percentage of Net Sales



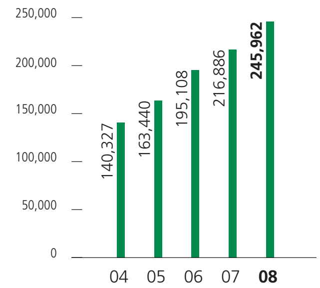
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

Orders received by this segment increased ¥22.6 billion, or 11.0%, from the previous year, to ¥227.4 billion, due to orders for helicopter engines for Japan's Ministry of Defense (MOD), gas turbine power generation systems for customers in Japan and overseas, and land-use steam turbine systems. Other orders included components for commercial aircraft engines, including the V2500 and TRENT, diesel engines, and propulsion systems for ships.

Sales of this segment expanded ¥2.2 billion, or 1.2%, to ¥185.5 billion. Although sales of steam turbines for ships declined, sales of components for commercial aircraft engines and natural gas compression modules increased. Operating income rose ¥3.6 billion, or 36.1%, to ¥13.4 billion, as a result of higher sales of commercial aircraft engine components and other products.

Outlook

The Gas Turbines & Machinery segment has a wide range of products for the energy and transportation equipment field, and both of these markets are increasing along with growth in the global economy. In response to increasing demand, we constructed a new plant at the Seishin Works and are rearranging the Harima Works to strengthen its production capabilities.

In the energy field, demand for environment-friendly gas turbine generators with high overall efficiency is increasing worldwide. As Japan's largest manufacturer of small to medium-sized gas turbine power generators, KHI intends to expand its global market share through offering comprehensive solutions for its customers, including after-sales services and maintenance, along with a strong lineup of in-house developed gas turbines.

Also, in the oil and gas field, KHI has extensive experience as a world-leading manufacturer of natural gas compression modules for offshore platforms. Along with the rise in demand for natural gas, needs for these gas compression modules are increasing as a key component for gas field development.

Moreover, the Kawasaki Green Gas Engine, which was developed in 2007 and has a power-generating capacity of 8MW, is currently undergoing successful operational testing. In these tests, this engine has steadily performed at the world's best electric generation efficiency level of 48.5% on grid-connected operations, and has shown a top-level environmental performance.

In the transportation equipment field, strong growth in the commercial aircraft market is driving the increase in demand for commercial aircraft engine components, including the V2500, which powers the Airbus A320 aircraft. In addition, we are making preparations for the volume production of TRENT 1000 components, a new commercial aircraft engine powering the Boeing 787. We expanded production capacity at the Seishin Works in Kobe to respond to sustained growth in demand for engines.

In the field of ship propulsion systems also, reflecting strong shipping market conditions, the segment is reporting a strong flow of new orders, and, therefore, has been rearranging the Harima Works in order to start the manufacturing of these products.

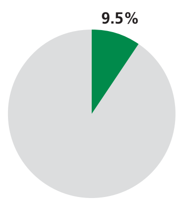
Plant & Infrastructure Engineering

Main Products
- Cement, chemical, and other industrial plants
- Power plants
- Municipal refuse incineration plants
- LNG and LPG tanks
- Shield machines and tunnel boring machines

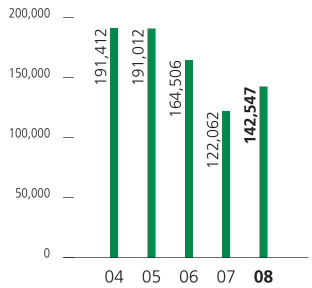
Waste heat recovery power generation system for cement plants for China

Coke oven gas recovery power plant for Brazil

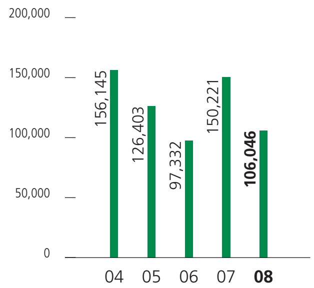
Percentage of Net Sales



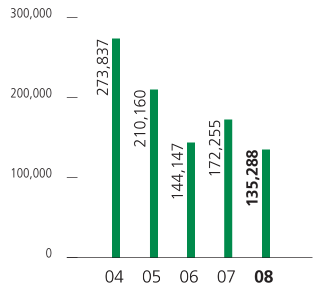
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Business Results

During fiscal 2008, orders were received for various types of industrial plants, including a boiler turbine power plant and cement waste heat power plants, as well as orders for shield machines. However, as a result of the receipt of large-scale orders, including cement plants in the previous fiscal year, orders for the year under review declined ¥44.2 billion, or 29.4%, from the previous fiscal year, to ¥106.0 billion.

Sales, however, rose ¥20.5 billion, or 16.8%, to ¥142.5 billion, because of higher revenues from an LNG base and, in overseas markets, from sales of cement and fertilizer plants. As a result of the increase in sales and reduction in the number of unprofitable projects, the operating income of this segment improved ¥13.2 billion, from an operating loss of ¥2.4 billion in the previous fiscal year to operating income of ¥10.8 billion during the fiscal year under review.

Outlook

Along with the growing seriousness of environmental issues and economic expansion in the BRICs and other countries, global demand is expanding for infrastructure equipment that contributes to environment preservation, energy saving, and conservation of resources. Kawasaki Plant Systems, Ltd. (K Plant), which is responsible for this business segment, is aggressively working to further develop its business activities to meet these needs by drawing on its accumulated technologies to supply energy-related, industrial infrastructure, and environment preservation systems and equipment.

In China, especially, in 2006, K Plant established Anhui Conch Kawasaki Engineering Co., Ltd. (ACK), as a joint venture with the Auhui Conch Group. ACK is engaged in the design, procurement, and sales of waste heat recovery power generation systems for cement plants. Following the establishment of ACK, in 2007, K Plant established Anhui Conch Kawasaki Energy Conservation Equipment Manufacturing Co., Ltd. (CKM), which is engaged in the manufacturing of PH boiler parts that are employed in waste heat power plants. Also, in April 2008, to expand the environmental and energy efficient equipment businesses, K Plant made the decision to commence the manufacturing and sales of environmental preservation related products within CKM. These products will include cement plant components, such as high-efficiency vertical mills, AQC boilers for waste heat recovery power generation systems, waste gasification systems, and sewage treatment systems. Going forward, K Plant will strengthen its partnership ties with the Anhui Conch Group, the parent company of Anhui Conch Cement Company Limited, which is the largest cement company in China and the fourth largest in the world, to expand its position in the environmental preservation and energy conservation fields in China.

Under its current Global K medium-term business plan, the KHI Group is endeavoring to strengthen its position in the energy and environmental engineering business, where major growth in demand is anticipated in the years to come, with K Plant as the core company. K Plant is aiming to become the top engineering company in the fields of clean energy and environmental preservation by fusing a broad range of technologies, stepping up activities focusing on the development of new technologies and products, and improving its business systems in the areas of design, marketing, procurement, and other fields.

Consumer Products & Machinery

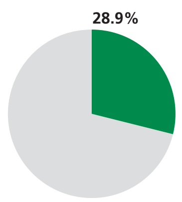
Main Products
- Motorcycles
- ATVs
- Utility vehicles
- Personal watercraft
- General-purpose gasoline engines
- Industrial robots


Ninja ZX-10R

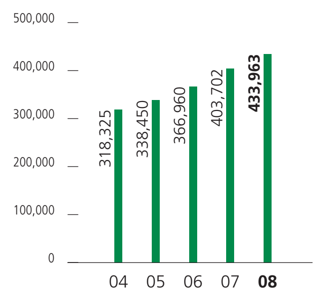

Teryx 750 4x4

MX500N

Percentage of Net Sales



Sales
(Millions of yen)



Business Results

Sales by this segment in the fiscal year under review increased ¥30.3 billion, or 7.5%, to ¥434.0 billion. Although sales of motorcycles in the United States declined, this decrease was offset by higher sales in Europe. In the industrial robots business, while sales to the semiconductor industry weakened, strong sales to the automobile industry continued. Despite increased sales in this segment, operating income decreased ¥7.9 billion, or 28.6%, to ¥19.7 billion, because of the impact of increases in materials prices combined with higher depreciation and amortization and sales promotional expenses.

Worldwide sales of motorcycles, ATVs, utility vehicles, and personal watercraft amounted to 519,000 units, 17,000 units, or 3.4% higher than in the previous fiscal year. By geographical region, sales in Japan amounted to 20,000 units, 1,000 units, or 4.8% lower than in the previous year. Sales in North America declined 24,000 units, or 9.4%, to 230,000 units. However, sales in Europe rose 21,000 units, or 21.6%, to 118,000 units, and sales in other regions expanded 21,000 units, or 16.2%, to 151,000 units.

New Models

New models introduced in fiscal 2008 were as follows. In the Kawasaki motorcycle line, we made a full model change in the flagship ZZR1400 ABS* model, which now meets stricter exhaust emission regulations and features improved driving performance, and in the Ninja ZX-10R large displacement supersport motorcycle. Model changes in the Ninja ZX-10R were based on technical feedback from a wide range of racing activities. We also introduced the Ninja 250R in the Japanese, U.S., and European markets, which is equipped with a full fairing and is both easy to ride and sporty. Other models introduced were the newly redesigned dual-purpose KLX250, which is becoming more eco-friendly and boasts improved off-road performance, and the D-TRACKER X, which offers nimble on-road handling as a motard model. In the ATV category, we restyled the flagship Brute Force 750 4x4i and installed an electronic fuel injection system. Among utility vehicles, we introduced the new Teryx 750 4x4 series for recreational use.

* ABS: Anti-lock Braking System

Outlook

In the current fiscal year, we are forecasting that total worldwide sales in unit terms of motorcycles, ATVs, utility vehicles, and personal watercraft will rise over the previous fiscal year. Although sales to the U.S. market are expected to decline this fiscal year as a result of the economic downturn in that country, this decrease will be more than compensated for by higher sales in Southeast Asia. In the motorcycle business, we are working to increase our development and design capabilities and will launch models that will further strengthen the image of the Kawasaki brand for high performance and high quality. In the industrial robot business, we are placing top priority on allocating corporate resources for R&D and other activities to develop robots for automobile assembly and painting shops as well as for semiconductor manufacturing processes.

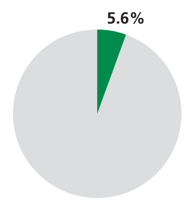
Main Products
• Industrial hydraulic products

Hydraulic Machinery

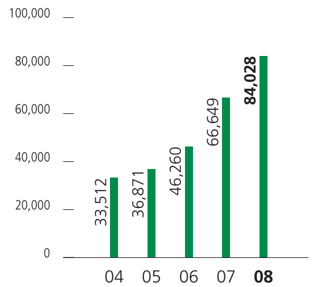

Hydraulic products for construction machinery use

Kawasaki Precision Machinery (China) Ltd.

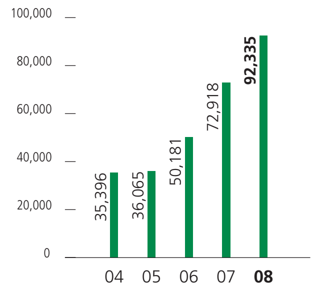
Percentage of Net Sales



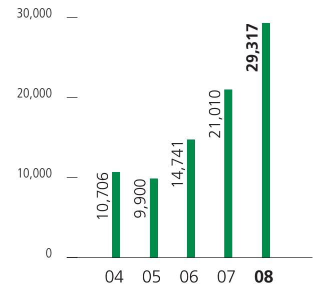
Sales
(Millions of yen)



Orders Received
(Millions of yen)



Order Backlog
(Millions of yen)



Note: The hydraulic machinery business was formerly included in KHI's Other business segment; however, in view of its growing importance in the KHI Group's sales and activities, the results of this business have been reported separately beginning with the fiscal year under review. Data for previous years have been reclassified and adjusted according to the new segment reporting format, and comparisons with the previous year have been based on the reclassified and adjusted data.

Business Results

Orders in the Hydraulic Machinery segment increased ¥19.4 billion, or 26.6% over the previous fiscal year, to ¥92.3 billion, mainly because of a larger volume of orders from the construction machinery industry.

Sales expanded ¥17.4 billion, or 26.1%, to ¥84.0 billion, supported by brisk sales of hydraulic products for construction machinery, and operating income rose ¥3.1 billion, or 50.4%, to ¥9.1 billion.

Outlook

The market for construction machinery is expanding worldwide along with activities to improve the social infrastructure in the BRICs and the VISTA* countries, the next group of emerging industrializing economies. Kawasaki Precision Machinery Ltd. (KPM) is the core company in this segment, and to respond to rising demand for hydraulic machinery for use in construction machinery, KPM is continuing to strengthen its production and marketing systems and capabilities.

* VISTA stands for Vietnam, Indonesia, South Africa, Turkey, and Argentina.

First, in the previous year, KPM built a new plant for the production of core parts on the grounds of its headquarters plant in Kobe, Japan, and is currently moving forward with construction on a new plant for manufacturing hydraulic pumps for construction machinery. This new plant is scheduled to begin operations in June 2009, and, at that time, KPM's headquarters plant will be renovated to increase production capacity for various types of hydraulic equipment.

In addition, Kawasaki Precision Machinery (China) Ltd. (KPM (China)) is expanding its plant for the production of hydraulic equipment for construction machinery, and the new facilities went into operation in July 2008. Established in August 2006, KPM (China) has engaged in the assembly of knockdown sets of hydraulic pumps, and the new facilities are now engaging in the assembly of knockdown sets of hydraulic motors and reduction gears.

KPM is currently working to strengthen its international network of five manufacturing and marketing facilities, which comprises KPM's headquarters plant and the facilities of Kawasaki Precision Machinery (U.K.) Limited; Kawasaki Precision Machinery (U.S.A.), Inc.; Flutek, Ltd. (in Korea); and KPM (China). KPM is focusing especially on increasing overall customer satisfaction by developing and supplying high-quality, high-performance products, responding quickly and accurately to customer needs, and providing strong after-sales services.

	Millions of yen					
	2008	2007	2006	2005	2004	2003
Operating results:						
Net sales	**¥1,501,097**	¥1,438,619	¥1,322,487	¥1,241,592	¥1,160,252	¥1,239,598
Cost of sales	**1,262,032**	1,213,524	1,148,547	1,088,219	998,416	1,069,341
Gross profit	**239,065**	225,095	173,940	153,373	161,836	170,257
Selling, general and administrative expenses	**162,155**	155,953	132,145	128,629	139,586	139,714
Operating income	**76,910**	69,142	41,795	24,744	22,250	30,543
Net income	**35,141**	29,772	16,467	11,479	6,333	13,022
Capital expenditures	**50,538**	39,269	41,724	29,692	41,502	35,165
Depreciation and amortization	**37,455**	30,279	30,551	31,555	32,590	31,595
R&D expenses	**36,228**	33,819	27,040	13,183	14,741	15,494
Financial position at year-end:						
Working capital	**¥ 157,741**	¥ 155,412	¥ 113,240	¥ 138,523	¥ 121,941	¥ 137,771
Net property, plant and equipment	**259,927**	253,819	246,219	243,166	248,922	234,352
Total assets	**1,378,770**	1,357,980	1,284,085	1,194,473	1,156,904	1,149,161
Long-term debt, less current portion	**138,766**	165,754	157,057	207,279	210,819	226,936
Total net assets	**319,038**	295,378	243,096	206,156	194,030	180,176
Per share amounts (yen):						
Earnings per share—basic	**¥ 21.1**	¥ 18.9	¥ 11.2	¥ 7.9	¥ 4.4	¥ 9.3
Earnings per share—diluted	**20.6**	17.2	9.4	6.8	4.2	8.8
Cash dividends	**5.0**	5.0	3.0	2.5	2.0	2.0
Net assets	**191.1**	178.0	156.1	142.8	134.4	129.6
Other data:						
Number of shares issued (millions)	**1,670**	1,660	1,558	1,443	1,443	1,391
Number of employees	**30,563**	29,211	28,922	28,682	29,306	28,642
Orders received	**¥1,610,757**	¥1,592,688	¥1,351,631	¥1,301,845	¥1,226,728	¥1,227,449
Order backlog	**1,533,663**	1,465,155	1,310,444	1,254,409	1,189,374	1,175,563

OVERVIEW

During fiscal 2008, ended March 31, 2008, the Japanese economy continued to show a generally solid performance during the first half of the fiscal year, despite some uncertainties; however, in the second half of the fiscal year, the substantially greater rise in prices of raw materials and consumer goods accompanying the run-up in oil prices, declines in stock markets, the appreciation of the yen against the U.S. dollar, and other factors resulted in a feeling of lack of transparency regarding future trends. In overseas economies also, conditions in the first half of the fiscal year were generally steady. However, entering the latter half, while the economies of China and certain other countries reported favorable performances, the subprime loan issue in the United States and other problems led to growing causes for concern, including a credit crunch in some parts of Europe and North America and a slowdown in growth.

Amid this economic environment, the Kawasaki Heavy Industries (KHI) Group reported an increase in orders on a consolidated basis of ¥18.1 billion, or 1.1%, over the previous fiscal year, to ¥1,610.8 billion. This rise was led by the receipt of a substantial number of orders for bulk carriers in the Shipbuilding segment and other items. Turning to revenues, consolidated net sales rose ¥62.5 billion, or 4.3%, to ¥1,501.1 billion, driven by higher sales in the Shipbuilding and Consumer Products & Machinery segments as well as other areas.

Profitwise, consolidated operating income advanced ¥7.8 billion, or 11.2%, to ¥76.9 billion, and net income grew ¥5.4 billion, or 18.0%, to ¥35.1 billion. This improvement in profitability was due mainly to the appreciation of the U.S. dollar against the yen in the first half of the fiscal year and the return to profitability of the Shipbuilding and Plant & Infrastructure Engineering segments.

RESULTS OF OPERATIONS

Net Sales

As mentioned, consolidated net sales rose ¥62.5 billion, or 4.3%, to ¥1,501.1 billion.

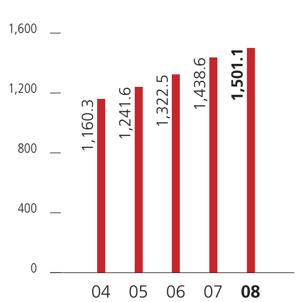
The principal factors accounting for this increase were (a) a rise in sales in the Shipbuilding segment of ¥32.5 billion owing to a gain in sales of such big-ticket items as LNG carriers and (b) an increase in revenues in the Consumer Products & Machinery segment of ¥30.3 billion, as sales of motorcycles to Europe expanded.

Overseas sales posted a gain of ¥44.8 billion, or 5.8%, to ¥822.6 billion. By region, sales in North America expanded ¥22.0 billion, or 6.5%; sales in Europe rose ¥34.2 billion, or 28.6%; sales in Asia outside Japan decreased ¥24.2 billion, or 13.0%; and sales in other areas increased ¥12.8 billion, or 9.5%. The ratio of overseas sales to consolidated net sales rose 0.7 percentage point, from 54.0% in the previous fiscal year to 54.7% for the fiscal year under review.

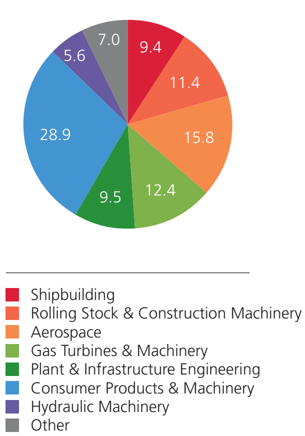
The following sections provide additional details regarding performance by industry segment. Operating income or loss includes intersegment transactions.

Please note that the Hydraulic Machinery business, which was previously included in the Other segment, has been shown as a separate industry segment, the Hydraulic Machinery segment, beginning with the fiscal year under review because of the growing importance of its activities within the KHI Group. Data for previous years shown in this

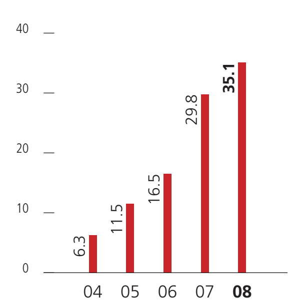
Net Sales
(Billions of yen)



Sales by Segment
(%)



Net Income
(Billions of yen)



annual report have been restated to reflect this change in industry segments.

Shipbuilding

This segment obtained orders for 28 vessels: namely, two LNG carriers, three LPG carriers, 22 bulk carriers, and one submarine. In value terms, orders rose ¥115.7 billion, or 85.3%, to ¥251.3 billion.

Consolidated sales expanded ¥32.5 billion, or 29.9%, to ¥141.4 billion. Owing to the increase in sales and improvement in profitability, operating income posted an improvement of ¥5.5 billion, moving from a loss of ¥2.2 billion in the previous fiscal year to a profit of ¥3.3 billion for the fiscal year under review.

Rolling Stock & Construction Machinery

Consolidated orders in this segment declined ¥85.9 billion, or 31.9%, to ¥183.3 billion. The segment received orders from (a) the Japan Railways Group for *Shinkansen* trains, commuter train cars, locomotives, freight cars, and other rolling stock; (b) public and private railways in Japan for subway cars, commuter train cars, and other rolling stock; and (c) additional orders from overseas customers, including subway cars from the New York City Transit Authority and other sources. However, these remained below the previous year, when orders were received for major overseas projects.

Regarding sales, although deliveries of rolling stock to the JR Group companies increased, deliveries to overseas customers declined. As a consequence, sales were down ¥12.5 billion, or 6.8%, to ¥171.7 billion. Sales of construction machinery, which are included in this segment, were virtually level with the previous fiscal year, in spite of lower sales in North America, as exports to other areas increased. Operating income for the segment decreased ¥6.0 billion, or 45.5%, to ¥7.2 billion, accompanying the decline in sales.

Aerospace

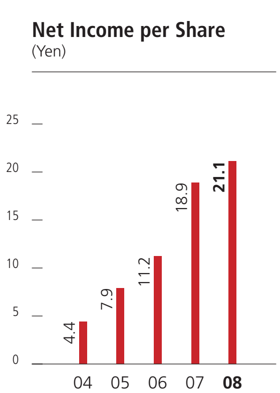
Orders of this segment on a consolidated basis decreased ¥53.1 billion, or 20.8%, to ¥202.5 billion. Although additional orders were received for component parts for the Boeing 787 and 777 aircraft, orders from Japan's Ministry of Defense (MOD) were below the previous year.

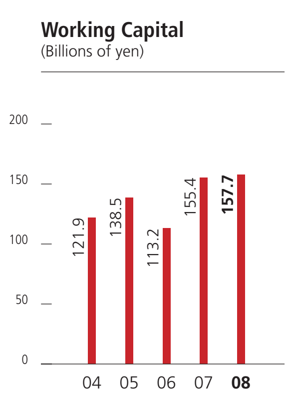
Sales of this segment declined ¥31.8 billion, or 11.8%, to ¥237.3 billion, as a consequence of lower sales to the MOD. Operating income decreased ¥2.5 billion, or 18.8%, to ¥10.9 billion, accompanying the decline in sales.

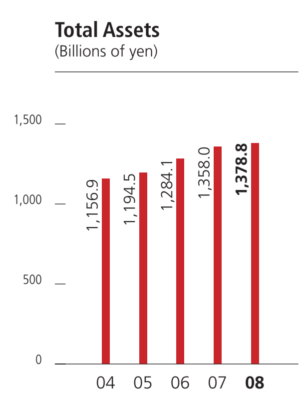
Gas Turbines & Machinery

Orders obtained by this segment expanded ¥22.6 billion, or 11.0%, to ¥227.4 billion. These included orders for helicopter engines for Japan's MOD, gas turbine power generation systems for customers in Japan and overseas, and land-use turbine systems. Other orders were for components for commercial aircraft engines, including the V2500 and TRENT, diesel engines for ships, and propulsion systems for ships.

Consolidated sales of this segment expanded ¥2.2 billion, or 1.2%, to ¥185.5 billion. While sales of steam turbines for ships declined, sales of components for commercial aircraft engines and natural gas compression modules increased, leading to an overall increase in sales of this segment. Operating income grew ¥3.6 billion, or 36.1%, to ¥13.4 billion, due mainly to higher sales of commercial aircraft engine components.







Plant & Infrastructure Engineering

Orders won by this segment were down ¥44.2 billion, or 29.4%, to ¥106.0 billion. These included orders for a boiler turbine power plant and cement waste heat power plants, as well as orders for shield machines. However, as a consequence of the placement of large-scale orders, including those for cement plants in the previous fiscal year, orders for the year under review were below those of the prior year.

Nevertheless, sales rose ¥20.5 billion, or 16.8%, to ¥142.5 billion, because of higher revenues from an LNG base and, in overseas markets, from sales of cement and fertilizer plants.

As a result of the increase in sales and reduction in the number of unprofitable projects, operating income posted an improvement of ¥13.2 billion, moving from an operating loss of ¥2.4 billion in the previous fiscal year to operating income of ¥10.8 billion during the fiscal year under review.

Consumer Products & Machinery

Sales of this segment increased ¥30.3 billion, or 7.5%, to ¥434.0 billion. Although sales of motorcycles in the United States declined, this decrease was offset by higher sales in Europe. In the industrial robots business, while sales to the semiconductor industry weakened, strong sales to the automobile industry continued. Despite increased sales in this segment, operating income decreased ¥7.9 billion, or 28.6%, to ¥19.7 billion, because of the impact of increases in materials prices combined with higher depreciation and amortization and sales promotional expenses.

Please note that since production in this segment is carried out mainly in anticipation of demand, figures for orders and sales are the same.

Hydraulic Machinery

Orders of this segment on a consolidated basis rose ¥19.4 billion, or 26.6%, to ¥92.3 billion, mainly due to increased orders from the construction machinery industry. Consolidated sales were up ¥17.4 billion, or 26.1%, to ¥84.0 billion, reflecting continued high levels of demand for products used in the manufacturing of construction machinery. Operating income expanded ¥3.1 billion, or 50.4%, to ¥9.1 billion.

Other

Orders on a consolidated basis moved up ¥13.2 billion, or 13.1%, to ¥113.9 billion. Consolidated sales grew ¥3.9 billion, or 3.9%, to ¥104.6 billion. Operating income decreased ¥1.2 billion, or 33.6%, to ¥2.4 billion.

The following sections summarize performance by geographic segment.

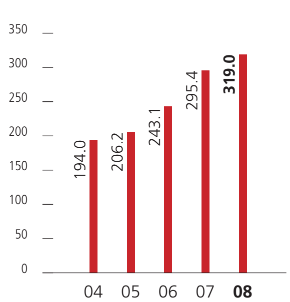
Japan

Sales in Japan rose ¥15.5 billion, or 1.5%, to ¥1,058.5 billion, driven especially by revenues from the Shipbuilding and Plant & Infrastructure Engineering segments. Operating income increased ¥9.5 billion, or 14.5%, to ¥74.9 billion, also owing mainly to improved profitability in the Shipbuilding and Plant & Infrastructure Engineering segments.

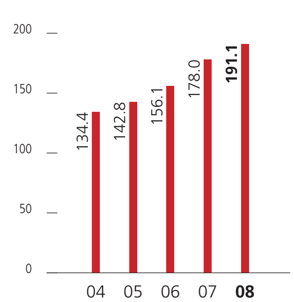
North America

Sales in North America expanded ¥6.3 billion, or 2.4%, to ¥267.6 billion, but operating income deteriorated from a profit of ¥1.7 billion in the previous fiscal year to an operating loss of ¥0.5 billion during the fiscal year under review as a result of the decline in motorcycle sales there and other factors.

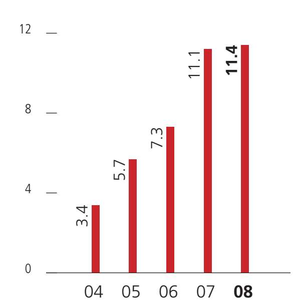
Total Net Assets
(Billions of yen)



Net Assets per Share
(Yen)



Return on Equity
(%)



Europe

Sales of motorcycles held strong in Europe, resulting in an increase in sales of ¥32.8 billion, or 33.1%, to ¥131.6 billion, and a rise in operating income of ¥2.1 billion, or 88.3%, to ¥4.5 billion.

Asia

Consolidated sales in this region leaped ¥10.6 billion, or 46.7%, to ¥33.3 billion, and operating income posted a strong increase of ¥0.8 billion, or 107.7%, to ¥1.5 billion.

Other Areas

Sales in other areas declined ¥2.7 billion, or 21.0%, to ¥10.1 billion, and operating income amounted to ¥0.3 billion, about the same as for the previous fiscal year.

Cost, Expenses, and Earnings

The cost of sales rose ¥48.5 billion, or 4.0%, to ¥1,262.0 billion, in part because of the rise in raw material prices, but the rate of increase in cost of sales was lower than the 4.3% increase in net sales. As a result, gross profit increased ¥14.0 billion, or 6.2%, to ¥239.1 billion, and the gross profit margin rose 0.3 percentage point from 15.6% in the previous year to 15.9% in the fiscal year under review.

Selling, general and administrative expenses rose ¥6.2 billion, or 4.0%, to ¥162.2 billion. Operating income increased ¥7.8 billion, or 11.2%, to ¥76.9 billion. The principal factors leading to this rise in operating income were (a) the return to profitability in the Shipbuilding and Plant & Infrastructure Engineering segments, (b) a weaker yen against the U.S. dollar, mainly in the first half of the fiscal year, and (c) the implementation of measures throughout the KHI Group to improve profitability by reducing production and fixed costs and other means. As a result, the ratio of operating income to net sales rose 0.3 percentage point from 4.8% in the previous fiscal year to 5.1% for the fiscal year under review.

Other income (expenses) for fiscal 2008 amounted to expenses of ¥18.9 billion versus ¥23.9 billion for the previous fiscal year. The principal factor accounting for this was an increase in equity in income of non-consolidated subsidiaries and affiliates, which rose from income of ¥2.7 billion in the previous fiscal year to ¥7.6 billion for the fiscal year under review, representing an increase of ¥4.9 billion.

As a result of the increase in operating income and the decline in other expenses, income before income taxes and minority interests rose ¥12.8 billion, or 28.2%, to ¥58.1 billion. The ratio of net current and deferred income taxes to income before income taxes and minority interests was 37.9%, versus 33.8% for the previous year and lower than the statutory tax rate of 40.5%. This difference was mainly due to an R&D tax credit for the year under review. As a result of these factors, after the deduction of minority interests in net income of consolidated subsidiaries, net income for the fiscal year increased ¥5.4 billion, or 18.0%, to ¥35.1 billion. The ratio of net income to net sales rose 0.2 percentage point, from 2.1% for the prior fiscal year to 2.3% for the fiscal year under review. ROE (calculated using average total net assets) increased 0.3 percentage point, from 11.1% to 11.4%.

Capital expenditures for the fiscal year under review amounted to ¥50.5 billion, compared with ¥39.3 billion in the previous fiscal year, and R&D expenses were ¥36.2 billion, versus ¥33.8 billion in the prior year.

FINANCIAL CONDITION

Total assets at the end of the fiscal year were ¥20.8 billion, or 1.5%, higher than at the end of the previous fiscal year and amounted to ¥1,378.8 billion. Of this total, current assets were ¥20.4 billion, or 2.1%, higher than at the end of the prior year and amounted to ¥982.3 billion. The principal reason for the increase in current assets was a rise in inventories, reflecting the Group's high level of orders received. Among other assets, investments and long-term loans were ¥17.3 billion lower than at the previous fiscal year-end, owing to the drop in the value of investment securities, accompanying the general decline in stock prices, and other factors. Net property, plant and equipment post a gain of ¥6.1 billion over the previous year-end, reflecting the KHI Group's active program of capital investments. Deferred tax, intangible and other assets were up ¥11.6 billion year on year.

Liabilities decreased ¥2.9 billion, or 0.3%, to ¥1,059.7 billion. This overall balance of liabilities was influenced mainly by (a) an increase of ¥18.5 billion in trade payables and (b) a decline in borrowings, bonds outstanding, and other interest-bearing debt of ¥27.8 billion, or 9.1%, to ¥276.4 billion.

Current liabilities were up ¥18.0 billion, or 2.2%, to ¥824.5 billion and long-term liabilities decreased ¥20.9 billion, or 8.2%, to ¥235.2 billion.

Net assets rose ¥23.7 billion, or 8.0%, over the previous fiscal year-end, to ¥319.0 billion. The principal reason for this increase was the rise in retained earnings, reflecting the gain in net income for the fiscal year.

The ratio of shareholders' equity to total assets rose 1.3 percentage points from 21.4% to 22.7%. In addition, the debt-to-equity ratio showed a further substantial decline from

104.7% at the end of the previous fiscal year to 86.7%. The current ratio, which stood at 119.1% at the end of the prior year, was 119.1% at the end of the fiscal year under review.

MANAGEMENT INDICATORS

The Company's objective is to meet and exceed the expectations of investors for profitability. The management indicator we have selected is before-tax return on invested capital (ROIC), which measures how efficiently the Company uses its capital. As it works to maximize before-tax ROIC, the Company is working to strengthen its financial position by implementing measures to expand profit and simultaneously reduce invested capital. Before-tax ROIC is computed by calculating the ratio of earnings before interest and taxes (EBIT) to the sum of interest-bearing debt and total shareholders' equity.

Applying this formula, before-tax ROIC for the year under review was 11.2%, which was 2.5 percentage points higher than the 8.7% figure for the prior year.

In addition, under the Group's Medium-Term Business Plan "Global K," announced in September 2006, the Group is aiming to strengthen its earning power and has therefore also adopted the ratio of recurring profit to net sales as a key management indicator. Recurring profit is used in accounting standards generally accepted in Japan. It is the sum of operating income, net interest income (expenses), dividend income, and other non-operating and recurring items.

For the fiscal year under review, the Group's ratio of recurring profit to net sales was 4.3%, which was 0.9 percentage point higher than the 3.4% reported for the prior year.

CASH FLOWS

During fiscal 2008, net cash provided by operating activities was ¥75.8 billion, ¥29.9 billion higher than during the previous fiscal year. Principal cash inflow items were income before income taxes and minority interests of ¥58.1 billion, depreciation and amortization of ¥37.5 billion, and an increase in trade payables of ¥26.9 billion. Among cash outflow items, the increase in inventories amounted to ¥19.0 billion.

Net cash used for investing activities amounted to ¥49.1 billion, ¥5.8 billion higher than in the previous fiscal year. The principal use of this cash was for acquisition of property, plant and equipment.

Free cash flow, which is the net amount of cash from operating and investing activities, amounted to an inflow of ¥26.7 billion, versus an inflow of ¥2.5 billion in free cash flow for the previous fiscal year.

Net cash used for financing activities amounted to ¥27.4 billion, which was ¥26.1 billion higher than in the previous fiscal year. This increase was mainly due to redemption of corporate bonds and payment of cash dividends.

As a result of these cash flows, cash and cash equivalents at the end of fiscal 2008 amounted to ¥38.2 billion, which was ¥1.1 billion less than at the beginning of the fiscal year.

DIVIDENDS

The Company's policy is to pay stable cash dividends to its shareholders, giving due consideration to increasing retained earnings to strengthen and expand its business foundations for future growth.

The Company's basic policy regarding cash dividends from retained earnings is to pay two dividends, one for the interim period and the other at the end of the fiscal period. The entity making final decisions on dividends is the meeting of the Board of Directors for the interim dividend and the general meeting of shareholders for the year-end dividend.

In view of the Company's policy of paying stable cash dividends, the decision was made to pay a dividend of ¥5 per share (an interim dividend of ¥0 and a year-end dividend of ¥5). The remainder of retained earnings will be used to make investments related to the Company's businesses, the repayment of borrowings, and for other uses.

Please note that the Company's Articles of Incorporation provide for paying an interim dividend as stipulated in Article 454-5 of the Japanese Corporate Law.

BUSINESS RISK

External factors that may have an effect on the KHI Group's performance and financial position include the following:

(1) Political and Economic Conditions

The Group conducts its business activities not only in Japan but also elsewhere in Asia, North America, Europe, and other areas and is subject to the consequences of political and economic developments in these regions. For example, trends in personal consumption may have an impact on sales of the Consumer Products & Machinery segment, while trends in private-sector capital investment and public works investment may have an influence on orders of the Gas Turbines & Machinery and the

Plant & Infrastructure Engineering segments. Moreover, demand for passenger air travel and conditions in shipping markets may have an impact on the Aerospace and Shipbuilding segments, respectively. Disputes and political changes may have an effect on the Company's overseas projects.

(2) Fluctuations in Foreign Exchange Rates

During fiscal 2008, overseas sales accounted for 54.7% of consolidated net sales. Accordingly, the Group has a substantial volume of transactions denominated in U.S. dollars, euros, and other currencies. To reduce foreign exchange risk, the Group is working to increase the ratio of the total cost of goods sold that is denominated in foreign currencies and, while taking into due account trends in foreign exchange rates, endeavors to take flexible measures to hedge the effect of exchange rate fluctuations through the use of forward contracts and other hedging techniques. However, the majority of the Group's manufacturing facilities are located in Japan, and its sales to overseas markets are, therefore, subject to foreign exchange fluctuation risk.

(3) Fluctuations in Prices of Raw Materials

Since the Group has many projects that require considerable time for completion, from the receipt of orders to final delivery, fluctuations in the prices of steel and other raw materials may have an impact on the profitability of such projects. Accordingly, the Group is subject to the risk of fluctuations in prices of raw materials.

(4) Government Regulations

The Group conducts its business activities in compliance with the restrictions in effect, including laws and regulations, in the countries and regions where it operates. However, the Group's operations may be affected if such restrictions are subject to unpredictable changes and if new restrictions are put into effect.

CORPORATE GOVERNANCE

(1) Basic Stance toward Corporate Governance—Enhancing Internal Control Systems

KHI has created a corporate governance structure appropriate for its operations, with members of the Board of Directors and auditors playing central roles, and is working to enhance and improve its internal control systems. Specific aspects of this system are as follows. Regarding the decision making and the conduct of operations of directors and employees, the scope of authority, responsibilities, and duties of directors and employees are clearly stated in the Company's internal rules. In addition, those responsible are required to keep records of actual decisions made and the conduct of operations, and an auditing system has been established to check on whether the content and form of these decisions and conduct of operations are in accordance with the Company's internal rules. As a result, the basic stance of the KHI Group as a whole regarding corporate governance is to endeavor to increase its corporate value through the highly transparent, efficient, and sound management of its operations as the Group works to build smooth relationships with all its stakeholders, including shareholders, customers, employees, and the community.

(2) KHI's Corporate Governance Framework

1. Conduct of Operations

KHI has established a Board of Directors with nine members who are responsible for formulating management strategy and supervising the conduct of operations. In addition, to create a management system that can respond quickly to changes in the operating environment, executive officers are appointed by the Board of Directors to be responsible for the day-to-day conduct of business operations.

The Board of Directors decides on the basic objectives and policies for the conduct of operations as it formulates management plans. These objectives and policies are then transmitted to all the executive officers and reviewed in detail to ensure full understanding at the meeting of the Group Executive Officer Committee. Subsequently, the Management Committee, which is composed of representative directors and management responsible for major subsidiaries, and the Board of Directors follow up on the implementation of management plans. To make the responsibility for management clear, the compensation of directors is incentive-based, reflecting corporate performance, and directors must stand for re-election annually. For major management issues, the Management Committee discusses such issues in detail, and then designated matters are decided by the Board of Directors. The Management Committee, in principle, meets three times a month, and discusses management policy, management strategy, important management issues, and other matters from the perspective of the Group as a whole.

2. Auditing Functions

KHI has formed a Board of Auditors with four members (two of whom are outside auditors), and, under the provisions of Japanese Corporate Law, the Board of Auditors conducts examinations of business operations and audits the financial accounts. Accordingly, the corporate auditors examine and monitor the state of operations and Group assets through a number of activities. These include attending the meetings of the Board of Directors and the Management Committee, examining important documents, holding periodic meetings with the representative directors, and auditing KHI's divisions and subsidiaries. In addition, the two outside corporate auditors on the Board of Auditors, who have no transactions or other relationships that represent a conflict of interest, perform their surveillance duties as neutral and objective third parties. The internal corporate auditors share information with the outside corporate auditors and work to enhance the effectiveness of their management surveillance functions.

Please note that the contracts signed between the Company and the outside corporate auditors, the scope of whose authority is based on Article 427-1 of the Japanese Corporate Law and Article 43 of KHI's Articles of Incorporation, provide for a limit on compensation to the outside auditors of the higher of ¥10 million or the amount stipulated in Article 425-1 of the Corporate Law (the equivalent of two years' compensation paid to the corporate auditors).

Moreover, KHI has appointed KPMG AZSA & Co. as its independent public accounting firm, and this firm conducts audits of the Company's financial statements. The corporate auditors and the Board of Auditors receive reports regarding the accounting audit, including the outline of the audit plans of the independent accounting firm, the items the accounting firm selects for particular focus, and other matters. In addition, the Board of Auditors explains the Company's auditing plans to the independent public accounting firm. Reports on the results of audits by the accounting firm are presented periodically (twice annually), and the corporate auditors and the accounting firm work closely together, exchanging information and opinions. As deemed necessary, the corporate auditors attend the audits conducted by the independent accounting firm and receive reports from time to time from the accounting firm.

Moreover, separately from the auditing activities previously mentioned, which are based on the Corporate Law, KHI's Auditing Department, which acts as the internal auditing unit, monitors the overall conduct of management activities within the KHI Group and carries out audits on a continuing basis of whether operations are being conducted appropriately and in compliance with laws and internal rules as well as other matters while endeavoring to upgrade internal control functions. In addition, to raise the level of auditing activities, the corporate auditors and the Auditing Department exchange information on a monthly basis and share information regarding the results of their auditing activities and items they have singled out for attention.

3. Compliance Systems

Along with updating and improving internal regulations related to ethical matters, in addition to the CSR Committee, KHI has formed compliance committees in each of its organizational units in Japan to take the initiative in promoting the self-assessment and verification of compliance. In addition, a Compliance Guidebook has been prepared and distributed to employees, not only of the parent company but also to those of virtually all subsidiaries and affiliates in Japan, and measures are being implemented to conduct various forms of compliance training, including "e-learning," along with concerted efforts to raise the level of awareness of compliance matters within the Group. In addition to these initiatives, a Compliance Reporting and Consultation System has been created through an outside legal office to enable employees to receive advice without being concerned about being observed by other employees.

(3) Compensation Paid to Directors and Corporate Auditors

During the fiscal year under review, the amounts of compensation paid to the Company's directors and corporate auditors were as follows.

	Amounts Paid (Millions of yen)		
	Directors	Corporate Auditors	Total
Compensation based on the Articles of Incorporation and decisions of the General Meeting of Shareholders	¥605	¥74	¥679
Retirement payments based on decisions of the General Meeting of Shareholders	23	—	23
Total	¥628	¥74	¥702

ASSETS	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash on hand and in banks	¥ 39,875	¥ 39,351	$ 397,954
Receivables:			
Trade	417,934	428,589	4,170,997
Other	19,361	18,261	193,224
Allowance for doubtful receivables	(4,140)	(4,273)	(41,317)
	433,155	442,577	4,322,904
Inventories	439,310	427,934	4,384,331
Deferred tax assets (Note 12)	25,250	32,694	251,996
Other current assets	44,692	19,362	446,029
Total current assets	982,282	961,918	9,803,214
Investments and long-term loans:			
Investments in securities (Notes 3 and 4)	70,052	87,277	699,122
Long-term loans	2,006	1,402	20,020
Other (Note 6)	8,962	9,788	89,440
Allowance for doubtful receivables	(1,345)	(1,473)	(13,423)
Total investments and long-term loans	79,675	96,994	795,159
Property, plant and equipment (Note 6):			
Land	64,457	66,503	643,283
Buildings and structures	293,150	282,988	2,925,649
Machinery and equipment	468,065	456,072	4,671,307
Construction in progress	9,938	8,538	99,182
	835,610	814,101	8,339,421
Accumulated depreciation	(575,683)	(560,282)	(5,745,339)
Net property, plant and equipment	259,927	253,819	2,594,082
Deferred tax, intangible and other assets:			
Deferred tax assets (Note 12)	38,337	27,725	382,605
Intangible and other assets (Note 5)	18,549	17,524	185,120
	56,886	45,249	567,725
Total assets	¥1,378,770	¥1,357,980	$13,760,180

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIABILITIES AND NET ASSETS	Millions of yen 2008	2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term borrowings and current portion of long-term debt (Note 6)	¥ 137,681	¥ 138,463	$ 1,374,062
Trade payables (Note 6)	431,000	412,501	4,301,397
Advances from customers	124,679	124,445	1,244,301
Income taxes payable (Note 12)	16,836	13,365	168,024
Accrued bonuses	19,263	17,811	192,246
Provision for product warranties	6,734	5,100	67,206
Provision for losses on construction contracts	8,836	12,363	88,184
Provision for losses on damages suit	2,245	2,398	22,405
Deferred tax liabilities (Note 12)	270	296	2,695
Other current liabilities	76,997	79,764	768,432
Total current liabilities	824,541	806,506	8,228,952
Long-term liabilities:			
Long-term debt, less current portion (Note 6)	138,766	165,754	1,384,890
Employees' retirement and severance benefits (Note 7)	81,928	77,484	817,645
Deferred tax liabilities (Note 12)	5,433	3,996	54,222
Provision for environmental measures	2,168	—	21,636
Other	6,896	8,862	68,823
Total long-term liabilities	235,191	256,096	2,347,216
Contingent liabilities (Note 8)			
Net assets (Note 9):			
Common stock:			
Authorized—3,360,000,000 shares			
Issued—1,669,629,122 shares in 2008			
—1,659,625,876 shares in 2007	104,329	103,188	1,041,208
Capital surplus	54,291	53,179	541,826
Retained earnings	151,401	125,799	1,510,988
Net unrealized gains on securities	10,292	19,342	102,715
Gains/losses on hedging items	5,217	(1,608)	52,066
Foreign currency translation adjustments	(11,878)	(9,417)	(118,543)
Treasury stock—1,324,199 shares in 2008			
—210,479 shares in 2007	(460)	(55)	(4,591)
Minority interests	5,846	4,950	58,343
Total net assets	319,038	295,378	3,184,012
Total liabilities and net assets	¥1,378,770	¥1,357,980	$13,760,180

Consolidated Statements of Income

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Net sales	**¥1,501,097**	¥1,438,619	¥1,322,487	**$14,981,008**
Cost of sales	**1,262,032**	1,213,524	1,148,547	**12,595,130**
Gross profit	**239,065**	225,095	173,940	**2,385,878**
Selling, general and administrative expenses (Note 10)	**162,155**	155,953	132,145	**1,618,313**
Operating income	**76,910**	69,142	41,795	**767,565**
Other income (expenses):				
Interest and dividend income	**5,005**	3,807	3,225	**49,950**
Equity in income (loss) of non-consolidated subsidiaries and affiliates	**7,642**	2,694	(197)	**76,267**
Interest expense	**(7,980)**	(6,650)	(5,377)	**(79,641)**
Other, net (Note 11)	**(23,522)**	(23,725)	(16,146)	**(234,750)**
Income before income taxes and minority interests	**58,055**	45,268	23,300	**579,391**
Income taxes (Note 12):				
Current	**(23,271)**	(16,623)	(24,148)	**(232,246)**
Deferred	**1,260**	1,337	17,843	**12,575**
Minority interests in net income of consolidated subsidiaries	**(903)**	(210)	(528)	**(9,011)**
Net income	**¥ 35,141**	¥ 29,772	¥ 16,467	**$ 350,709**

	Yen			U.S. dollars (Note 1)
Per share amounts (Note 15):				
Earnings per share—basic	**¥21.1**	¥18.9	¥11.2	**$0.21**
Earnings per share—diluted	**20.6**	17.2	9.4	**0.21**
Cash dividends	**5.0**	5.0	3.0	**0.05**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Kawasaki Heavy Industries, Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2008, 2007 and 2006

	Thousands	Millions of yen							
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Gains/ losses on hedging items	Foreign currency translation adjustments	Treasury stock	Minority interests
Balance at March 31, 2005	1,443,394	¥ 81,427	¥31,390	¥ 88,704	¥16,910	¥ —	¥(16,843)	¥(123)	¥ —
Net income for the year	—	—	—	16,467	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	5,417	—	—
Decrease in net unrealized gains on securities	—	—	—	—	(2,813)	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	—	85	—
Cash dividends	—	—	—	(3,606)	—	—	—	—	—
Gain on sales of treasury stock	—	—	46	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(84)	—	—	—	—	—
Conversion of convertible bonds	114,321	10,658	10,658	—	—	—	—	—	—
Other (Note 13)	—	—	—	(705)	—	—	—	—	—
Balance at March 31, 2006	1,557,715	92,085	42,094	100,776	14,097	—	(11,426)	(38)	—
Net income for the year	—	—	—	29,772	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	2,009	—	—
Increase in net unrealized gains on securities	—	—	—	—	5,245	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	—	(17)	—
Cash dividends	—	—	—	(4,673)	—	—	—	—	—
Gain on sales of treasury stock	—	—	1	—	—	—	—	—	—
Bonuses to directors and statutory auditors	—	—	—	(14)	—	—	—	—	—
Conversion of convertible bonds	101,911	11,103	11,084	—	—	—	—	—	—
Other	—	—	—	(62)	—	(1,608)	—	—	4,950
Balance at March 31, 2007	1,659,626	103,188	53,179	125,799	19,342	(1,608)	(9,417)	(55)	4,950
Net income for the year	—	—	—	35,141	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	—	(2,461)	—	—
Decrease in net unrealized gains on securities	—	—	—	—	(9,050)	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	—	(410)	—
Cash dividends	—	—	—	(8,298)	—	—	—	—	—
Gain on sales of treasury stock	—	—	(1)	—	—	—	—	—	—
Conversion of convertible bonds	10,003	1,141	1,113	—	—	—	—	—	—
Other (Note 13)	—	—	—	(1,241)	—	6,825	—	5	896
Balance at March 31, 2008	**1,669,629**	**¥104,329**	**¥54,291**	**¥151,401**	**¥10,292**	**¥ 5,217**	**¥(11,878)**	**¥(460)**	**¥5,846**

	Thousands of U.S. dollars (Note 1)							
	Common stock	Capital surplus	Retained earnings	Net unrealized gains on securities	Gains/ losses on hedging items	Foreign currency translation adjustments	Treasury stock	Minority interests
Balance at March 31, 2007	$1,029,820	$530,729	$1,255,479	$193,034	$(16,048)	$ (93,982)	$ (549)	$49,401
Net income for the year	—	—	350,709	—	—	—	—	—
Adjustments from translation of foreign currency financial statements	—	—	—	—	—	(24,561)	—	—
Decrease in net unrealized gains on securities	—	—	—	(90,319)	—	—	—	—
Treasury stock purchased, net	—	—	—	—	—	—	(4,092)	—
Cash dividends	—	—	(82,814)	—	—	—	—	—
Gain on sales of treasury stock	—	(10)	—	—	—	—	—	—
Conversion of convertible bonds	11,388	11,107	—	—	—	—	—	—
Other (Note 13)	—	—	(12,386)	—	68,114	—	50	8,942
Balance at March 31, 2008	**$1,041,208**	**$541,826**	**$1,510,988**	**$102,715**	**$ 52,066**	**$(118,543)**	**$(4,591)**	**$58,343**

The accompanying notes to the consolidated financial statements are an integral part of these statements.

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥58,055**	¥45,268	¥23,300	**$579,391**
Adjustments to reconcile net income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation and amortization	**37,455**	30,279	30,551	**373,802**
Loss on impairment of fixed assets	**2,764**	—	3,008	**27,585**
Provision for retirement and severance benefits	**7,124**	8,460	17,092	**71,098**
Reversal of allowance for doubtful receivables	**(406)**	(2,224)	(44)	**(4,052)**
Provision for losses on construction contracts	**(3,498)**	(247)	5,660	**(34,910)**
Provision for restructuring charges on commercial aircraft manufacturing business	**—**	(9,557)	9,557	**—**
Loss on impairment of inventories for restructuring on commercial aircraft manufacturing business	**—**	—	6,259	**—**
Provision for loss on damages suit	**(153)**	2,398	—	**(1,527)**
Provision for environmental measures	**2,168**	—	—	**21,637**
Loss on disposal of inventories	**1,350**	1,025	1,738	**13,473**
Gain on sale of marketable and investment securities	**(349)**	(889)	(4,501)	**(3,483)**
Loss on sale of property, plant, and equipment	**1,397**	1,414	960	**13,942**
Gain on contribution of securities to the pension trust	**(1,376)**	—	(12,901)	**(13,733)**
Investment gain on equity method	**(7,642)**	—	—	**(76,267)**
Interest and dividend income	**(5,005)**	(3,807)	(3,225)	**(49,950)**
Interest expense	**7,980**	6,650	5,377	**79,641**
Changes in assets and liabilities:				
Decrease (increase) in:				
Trade receivables	**(11,102)**	(2,867)	(14,250)	**(110,798)**
Inventories	**(19,046)**	(40,608)	(49,754)	**(190,080)**
Other current assets	**(10,723)**	5,157	(1,247)	**(107,016)**
Increase (decrease) in:				
Trade payables	**26,870**	(1,248)	55,294	**268,164**
Advances received	**1,849**	25,285	(13,821)	**18,453**
Accrued bonuses	**1,451**	2,634	1,397	**14,481**
Other current liabilities	**7,758**	223	1,689	**77,425**
Other, net	**(3,314)**	2,887	2,583	**(33,074)**
Subtotal	**93,607**	70,233	64,722	**934,202**
Cash received for interest and dividends	**9,608**	5,393	3,129	**95,888**
Cash paid for interest	**(8,035)**	(6,438)	(5,332)	**(80,190)**
Cash paid for income taxes	**(19,414)**	(23,329)	(16,581)	**(193,752)**
Loss on cleaning of ground pollution	**—**	—	(177)	**—**
Net cash provided by operating activities	**75,766**	45,859	45,761	**756,148**

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	Millions of yen			Thousands of U.S. dollars (Note 1)
	2008	2007	2006	**2008**
Cash flows from investing activities:				
Decrease in time deposits with maturities over three months	**(1,635)**	27	101	**(16,317)**
Acquisition of property, plant and equipment	**(45,598)**	(31,651)	(34,657)	**(455,070)**
Proceeds from sales of property, plant, and equipment	**469**	2,301	2,232	**4,680**
Acquisition of intangible assets	**(5,238)**	(3,625)	(4,602)	**(52,275)**
Proceeds from sales of intangible assets	**55**	176	38	**549**
Acquisition of investments in securities	**(1,183)**	(10,089)	(5,765)	**(11,806)**
Proceeds from sale of investments in securities	**5,731**	1,589	6,871	**57,195**
Decrease (increase) in short-term loans receivable	**(278)**	254	(429)	**(2,774)**
Additions to long-term loans receivable	**(990)**	(88)	(895)	**(9,880)**
Proceeds from collection of long-term loans receivable	**94**	18	428	**938**
Other	**(517)**	(2,224)	168	**(5,160)**
Net cash used for investing activities	**(49,090)**	(43,312)	(36,510)	**(489,920)**
Cash flows from financing activities:				
Increase (decrease) in short-term borrowings	**13,099**	(9,958)	7,391	**130,729**
Proceeds from long-term debt	**3,328**	62,061	24,657	**33,214**
Repayment of long-term debt	**(34,817)**	(48,586)	(44,987)	**(347,475)**
Acquisition of treasury stock	**(479)**	(68)	(51)	**(4,780)**
Cash dividends paid	**(8,262)**	(4,577)	(3,622)	**(82,456)**
Cash dividends paid to minority interests	**(261)**	(179)	(109)	**(2,605)**
Net cash used for financing activities	**(27,392)**	(1,307)	(16,721)	**(273,373)**
Effect of exchange rate changes	**(501)**	482	703	**(5,000)**
Net increase (decrease) in cash and cash equivalents	**(1,217)**	1,722	(6,767)	**(12,145)**
Cash and cash equivalents at beginning of year	**39,228**	37,506	44,385	**391,496**
Increase in cash and cash equivalents due to changes in fiscal period of consolidated subsidiaries	**158**	—	—	**1,577**
Decrease in cash and cash equivalents arising from exclusion of consolidated subsidiaries	**—**	—	(112)	**—**
Cash and cash equivalents at end of year	**¥38,169**	¥39,228	¥37,506	**$380,928**
Supplemental information on cash flows:				
Cash and cash equivalents:				
Cash on hand and in banks in the balance sheets	**¥39,875**	¥39,351	¥37,650	**$397,954**
Time deposits with maturities over three months	**(1,706)**	(123)	(144)	**(17,026)**
Total	**¥38,169**	¥39,228	¥37,506	**$380,928**

The accompanying notes to the consolidated financial statements are an integral part of these statements.
See Note 14 for significant non-cash transactions.

1. Basis of Presenting Consolidated Financial Statements

Kawasaki Heavy Industries, Ltd. (the "Company") and its consolidated domestic subsidiaries maintain their official accounting and disclosure records in Japanese yen. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions and the inclusion of consolidated statements of changes in net assets, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100.20 to US$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies (together, the "Companies") over which the Company has power of control through majority voting rights or the existence of certain other conditions evidencing control.

The consolidated financial statements include the accounts of the Company and 95 (96 in 2007 and 96 in 2006) subsidiaries.

For the year ended March 31, 2008, 3 subsidiaries (3 in 2007 and 5 in 2006) were excluded from the consolidation. The amount of total assets, net sales, net income and retained earnings of these excluded subsidiaries, in the aggregate, would not have had a material effect on the consolidated financial statements if they were included in the consolidation.

(b) Application of the equity method of accounting

Investments in nonconsolidated subsidiaries and affiliates over which the Company has the ability to exercise significant influence over operating and financial policies are accounted for by the equity method.

For the year ended March 31, 2008, 18 affiliates (19 in 2007 and 19 in 2006) were accounted for by the equity method.

For the year ended March 31, 2008, investments in 2 nonconsolidated subsidiaries (3 in 2007 and 5 and 2006) and 14 affiliates (13 in 2007 and 15 in 2006), were stated at cost without applying the equity method of accounting. If the equity method had been applied for these investments, net income and retained earnings of these excluded subsidiaries and affiliates would not have had a material effect on the consolidated financial statements.

(c) Consolidated subsidiaries' fiscal year-end

The fiscal year-end of 28 consolidated subsidiaries (29 in 2007 and 35 in 2006) is December 31.

These subsidiaries are consolidated as of December 31. Unusual significant transactions for the period between December 31 and March 31, the Company's year-end, are adjusted on consolidation.

(d) Elimination of inter-company transactions and accounts

All significant inter-company transactions and accounts and unrealized inter-company profits are eliminated on consolidation, and the portion attributable to minority interests is credited to minority interests.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

(e) Foreign currency translation

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rate.

The balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except for shareholders' equity accounts, which are translated at historical rates. The income statements of consolidated overseas subsidiaries are translated at average rates, except for transactions with the Company, which are translated at the rates used by the Company.

The Company and its domestic subsidiaries report foreign currency translation adjustments in net assets.

(f) Appropriations of retained earnings

Appropriations of retained earnings are recorded in the fiscal year when the proposed appropriations are approved.

(g) Revenue recognition

Sale of products and construction contracts

Sales of products such as ships, rail cars, airplanes, machinery and motorcycles are principally recognized upon delivery. Contract revenue for construction of plants, machinery, bridges etc. is principally recognized on a customer acceptance basis. When prices for components or contract amounts for nearly completed contracts are not finalized, sales and cost of sales are estimated. The percentage-of-completion method is applied to long-term contracts such as those for ships, airplanes and plants exceeding ¥3,000 million. The stage of completion is normally determined based on the proportion of costs incurred to date to the estimated total costs of the contract. The completed contract method is applied to long-term contracts not exceeding ¥3,000 million.

Service revenue
Service revenues are recognized when services have been rendered. Services include supervisory or installation services for products such as rail cars, machinery and plants. When the price of such services is individually determined by the contract and the collectability of the revenue is reasonably assured, the service revenue is recognized on an accrual basis. Otherwise, the service revenue is recognized on a completion basis.

(h) Cash and cash equivalents
Cash on hand, readily-available deposits and short-term highly liquid and low risk investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents in preparing the consolidated statements of cash flows.

(i) Allowance for doubtful receivables
The allowance for possible losses from notes and accounts receivable, loans and other receivables is provided based on past experience and the Companies' estimates of losses on collection.

(j) Inventories
Inventories are stated at cost, which is determined principally by the specific identification cost method; the first-in, first-out method; or the moving average method.

(k) Assets and liabilities arising from derivative transactions
Assets and liabilities arising from derivative transactions are stated at fair value.

(l) Investments in securities
The Company and its consolidated domestic subsidiaries classify securities as (a) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (b) equity securities issued by subsidiaries and affiliated companies and (c) all other securities (hereafter, "available-for-sale securities"). There were no trading securities at March 31, 2008 or 2007.

Held-to-maturity debt securities are stated mainly at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available fair market value are stated at moving average cost.

If the market value of held-to-maturity debt securities, equity securities issued by nonconsolidated subsidiaries or affiliated companies or available-for-sale securities declines significantly, such securities are stated at fair market value, and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by nonconsolidated subsidiaries and affiliated companies not subject to the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the statements of income in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(m) Property, plant and equipment
Property, plant and equipment are stated at cost. Depreciation, except for buildings acquired after April 1998 in Japan, is mainly computed on a declining balance basis over the estimated useful life of the assets. Depreciation of buildings acquired after April 1998 in Japan is computed on a straight-line basis over the building's estimated useful life.

(n) Intangible assets
Amortization of intangible assets, including software for the Company's own use, is computed by the straight-line method over the estimated useful life of the assets.

Goodwill is amortized on a straight-line basis over the period its effect lasts. If the amount is not significant, it is expensed when incurred.

(o) Impairment of fixed assets
Effective April 1, 2005, the Company and its domestic consolidated domestic subsidiaries adopted a new accounting standard for impairment of fixed assets ("Opinion on Establishment of Accounting Standard for Impairment of Fixed Assets," issued by the Business Accounting Deliberation Council on August 9, 2002) and the guidance on the accounting standard for impairment of fixed assets (the "Financial Accounting Standard Guidance No. 6," issued by the Accounting Standards Board of Japan on October 31, 2003).

(p) Accrued bonuses
Accrued bonuses for employees are provided based on the estimated amount of payment.

(q) Provision for product warranty
The provision for product warranty is based on past experience and separately provided when able to be reasonably estimated.

(r) Provision for restructuring of the commercial aircraft manufacturing business
This provision is for estimated charges as the Company has reached a basic agreement with respect to the partial transfer of its manufacturing work on "EMBRAER 190" airplanes to Embraer—Empresa Brasileira de Aeronáutica S.A., which is the Brazilian co-developer of the airplane.

(s) Provision for losses on construction contracts
The provision for losses on uncompleted construction contracts at the fiscal year-end is made when substantial losses are anticipated for the next fiscal year and beyond and such losses can be reasonably estimated.

(t) Provision for environmental measures
The "Law Concerning Special Measures against PCB (poly chlorinated biphenyl) waste" requires companies to responsibly dispose of PCB waste. The Company reserved an amount for estimated expenses to treat PCB waste in the year ended March 31, 2008.

(u) Income taxes
The asset and liability approach is used to recognize deferred tax assets and liabilities for loss carryforwards and the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(v) Employees' retirement and severance benefits
Employees who terminate their services with the Company and its consolidated domestic subsidiaries are generally entitled to lump-sum payments, the amounts of which are determined by reference to basic rates of pay at the time of termination and length of service.

The liabilities and expenses for retirement and severance benefits are determined based on amounts actuarially calculated using certain assumptions. The Company and its consolidated domestic subsidiaries provided the allowance for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation and fair value of plan assets (including retirement benefit trust).

The excess of the projected benefit obligation over liabilities for retirement and severance benefits recorded as of April 1, 2000 (the "net transition obligation") is being recognized in expenses in equal amounts primarily over 10 years commencing with the year ended March 31, 2001. Actuarial gains and losses and prior service costs are recognized in expenses in equal amounts within the average of the estimated remaining service years of the employees commencing with the following and the current period, respectively.

Employees of the Company's overseas consolidated subsidiaries are generally covered by various pension plans accounted for in accordance with generally accepted accounting principles in the country of domicile.

(w) Accounting standard for presentation of net assets in the balance sheet
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

(x) Accounting standard for statement of changes in net assets
Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, the "Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards.

(y) Hedge accounting
The Company and its consolidated subsidiaries employ deferred hedge accounting. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in the fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

(z) Finance leases
For the Company and its consolidated domestic subsidiaries, finance leases that do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases in accordance with Japanese GAAP.

(aa) Earnings per share
The computations of earnings per share shown in the consolidated statements of income are based upon net income available to common stockholders and the weighted average number of shares outstanding during each period.

Diluted earnings per share is computed based on the assumption that all dilutive convertible bonds were converted at the beginning of the year.

(bb) Cash dividends
Per share amounts of cash dividends for each period represent dividends declared as applicable to the respective year.

(cc) Accounting changes in method of depreciation

Effective from the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries changed the method of depreciation for fixed assets acquired after April 1, 2007 in accordance with the revised corporation tax law in Japan.

As a result of this change, operating income and income before taxes and minority interests were ¥1,162 million ($11,597 thousand) less than what they would have been without the change.

In addition, effective from the year ended March 31, 2008, the Company and its consolidated domestic subsidiaries started to depreciate the 5% residual value of fixed assets acquired before March 31, 2007 over 5 years on a straight line basis to 1 yen from the year after the year when the book value of each asset reached 5% of the acquisition cost, in accordance with the revised corporation tax law in Japan.

As a result of this change, operating income and income before taxes and minority interests were ¥2,761 million ($27,555 thousand) less than they would have been without the change.

3. Securities

(a) Acquisition costs and book values (fair values) of available-for-sale securities with available fair values as of March 31, 2008 and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008			
	Acquisition cost	Book value	Difference	Difference
Securities with book values exceeding acquisition costs:				
Equity securities	¥15,982	¥33,990	¥18,008	$179,720
Other securities:				
Equity securities	3,878	2,732	(1,146)	(11,437)
Total	¥19,860	¥36,722	¥16,862	$168,283

	Millions of yen		
	2007		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥17,281	¥49,127	¥31,846
Other securities:			
Equity securities	187	138	(49)
Total	¥17,468	¥49,265	¥31,797

(b) Acquisition costs and book values of held-to-maturity debt securities with available fair values as of March 31, 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008			
	Acquisition cost	Book value	Difference	Difference
Securities with book values exceeding acquisition costs:				
Bonds	¥301	¥303	¥2	$19

(c) Book values of investments in securities with no available fair values as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
	Book value	Book value	Book value
Held-to-maturity debt securities:			
Public corporation bond	¥ 2	¥ —	$ 19
Total	¥ 2	¥ —	$ 19
Available-for-sale securities:			
Equity securities	¥ 8,445	¥ 9,014	$ 84,281
Other	1,717	6,686	17,136
Total	¥10,162	¥15,700	$101,417

See Note 4 for investments in nonconsolidated subsidiaries and affiliates.

(d) Sales amounts of available-for-sale securities and related gains and losses for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2008					
	Sales amounts	Gains	Losses	Sales amounts	Gains	Losses
Equity securities	¥729	¥465	¥—	$7,275	$4,640	$—

	Millions of yen		
	2007		
	Sales amounts	Gains	Losses
Equity securities	¥1,493	¥880	¥(0)

	Millions of yen		
	2006		
	Sales amounts	Gains	Losses
Equity securities	¥6,319	¥4,398	¥(18)

4. Investments in Nonconsolidated Subsidiaries and Affiliates

Investments in nonconsolidated subsidiaries and affiliates as of March 31, 2008 and 2007 were ¥22,862 million ($228,163 thousand) and ¥22,009 million, respectively.

5. Goodwill

Goodwill included in intangible and other assets was as follows:

Millions of yen		Thousands of U.S. dollars
2008	2007	2008
¥41	¥212	$409

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings and long-term debt as of March 31, 2008 and 2007 comprised the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term borrowings:			
Short-term debt, principally bank loans, bearing average interest rates of 2.904 percent and 3.757 percent as of March 31, 2008 and 2007, respectively	¥112,654	¥106,520	$1,124,292
Current portion of long-term debt, bearing average interest rates of 1.274 percent and 1.158 percent as of March 31, 2008 and 2007, respectively	25,027	31,943	249,770
Total short-term debt	¥137,681	¥138,463	$1,374,062
Long-term debt:			
Loans from banks and other financial institutions, partly secured by mortgage or other collateral, due from 2007 to 2035, bearing average interest rates of 1.487 percent and 1.457 percent as of March 31, 2008 and 2007, respectively	¥ 85,285	¥ 96,871	$ 851,147
Notes and bonds issued by the Company:			
2.00 percent notes due 2007	—	10,000	—
2.51–2.775 percent notes due 2008	10,000	20,000	99,800
1.07–2.33 percent notes due 2009	20,000	20,000	199,600
1.52–1.60 percent notes due 2011	20,000	20,000	199,600
1.84 percent notes due 2013	10,000	10,000	99,800
0.90 percent convertible bonds due 2008	7,518	7,518	75,030
1.00 percent convertible bonds due 2011	7,038	7,039	70,240
Zero coupon convertible bonds due 2010*	477	612	4,761
Zero coupon convertible bonds due 2011*	3,475	5,657	34,682
	163,793	197,697	1,634,660
Less portion due within one year	(25,027)	(31,943)	(249,770)
Total long-term debt	¥138,766	¥165,754	$1,384,890

*As of March 31, 2008, all the decreases in the zero coupon convertible bonds due in 2010 and 2011 resulted from conversions.

As of March 31, 2008, convertible bonds due from 2008 through 2011 were convertible into shares of common stock at the option of the holder at prices of ¥598 ($5.97), ¥182 ($1.82) and ¥232 ($2.32) per share. The conversion prices are subject to adjustments under specified conditions.

As of March 31, 2008 and 2007, the following assets were pledged as collateral for short-term borrowings and long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Land	**¥ 940**	¥1,255	**$ 9,381**
Buildings	**5,522**	2,321	**55,110**
Other investments	**315**	318	**3,143**
Total	**¥6,777**	¥3,894	**$67,634**

As of March 31, 2008 and 2007, debt secured by the above pledged assets was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Trade payables	**¥ 79**	¥ 66	**$ 788**
Short-term and long-term debt	**2,698**	4,374	**26,926**
Total	**¥2,777**	¥4,440	**$27,714**

The aggregate annual maturities of long-term debt as of March 31, 2008 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 25,027	$ 249,770
2010	31,782	317,185
2011	5,324	53,134
2012	56,749	566,357
2013 and thereafter	44,911	448,214
Total	¥163,793	$1,634,660

7. Employees' Retirement and Severance Benefits

The liability for employees' retirement and severance benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Projected benefit obligation	**¥182,766**	¥ 186,953	**$1,824,012**
Unrecognized prior service costs	**14,162**	16,347	**141,337**
Unrecognized actuarial differences	**4,682**	26,398	**46,726**
Less fair value of plan assets	**(96,979)**	(116,999)	**(967,854)**
Less unrecognized net transition obligation	**(25,029)**	(37,545)	**(249,790)**
Prepaid pension cost	**2,326**	2,330	**23,214**
Liability for retirement and severance benefits	**¥ 81,928**	¥ 77,484	**$ 817,645**

Retirement and severance benefit expenses in the consolidated statements of income for the years ended March 31, 2008, 2007 and 2006 comprised the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Service costs—benefits earned during the year	**¥ 8,556**	¥ 8,722	¥ 8,548	**$ 85,389**
Interest cost on projected benefit obligation	**4,625**	4,676	4,512	**46,157**
Expected return on plan assets	**(945)**	(974)	(860)	**(9,431)**
Amortization of prior service costs	**(2,285)**	(2,214)	(2,248)	**(22,804)**
Amortization of actuarial differences	**(1,983)**	(782)	1,664	**(19,790)**
Amortization of net transition obligation	**12,514**	12,516	12,989	**124,890**
Contribution to the defined contribution pension plans	**483**	420	367	**4,820**
Retirement and severance benefit expenses	**¥20,965**	¥22,364	¥24,972	**$209,231**

Basic assumptions and information used to calculate the retirement and severance benefits were as follows:

	2008	2007	2006
Discount rate	mainly 2.5%	mainly 2.5%	mainly 2.5%
Expected rate of return on plan assets			
(For the Company and consolidated domestic subsidiaries)	0.0 to 3.5%	0.0 to 3.5%	0.0 to 3.5%
(For consolidated overseas subsidiaries)	7.75%	7.75%	7.75%
Amortization period for prior service costs	mainly 10 years	10 to 15 years	10 to 15 years
Amortization period for actuarial gains and losses	mainly 10 years	10 to 15 years	10 to 15 years
Amortization period for transition obligation	mainly 10 years	mainly 10 years	mainly 10 years

8. Contingent Liabilities

Contingent liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
As guarantor of indebtedness of employees, nonconsolidated subsidiaries, affiliates and others	¥38,393	¥28,036	$383,163

9. Net Assets

As described in Note 2 (w), net assets comprises four subsections, which are owners' equity, accumulated gains (losses) from valuation and translation adjustments, share subscription rights and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code").

The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date. Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, if a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

10. Research and Development Expenses

Research and development expenses, included in selling, general and administrative expenses, were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Research and development expenses	¥36,228	¥33,819	¥27,040	$361,556

Through the year ended March 31, 2005, expenses to develop new models in the consumer product and machinery business had not been presented as research and development expenses. However, as the proportion of the business in the Company grew, the Company decided to include such expenses in research and development expenses commencing in the year ended March 31, 2006 to improve the usefulness and comparability of the financial statements.

As a result of this change, research and development expenses were ¥14,417 million ($122,729 thousand) more than what they would have been under the previous method. Applied retroactively for the year ended March 31, 2005, research and development expenses would have been ¥26,460 million ($225,249 thousand) under the new recording method.

Through the year ended March 31, 2006, expenses to develop new models in the consumer product and machinery business were included in cost of sales as production costs. However, as expenditures having research and development characteristics such as the development of new techniques or adaptation of new materials increased, the Company decided to include the expenditures in selling and general administrative expenses from the year ended March 31, 2007 to improve the usefulness and comparability of financial statements. This change has had little impact on net income. Moreover as a result of this change, cost of sales was ¥18,008 million less and selling and general administrative expenses the same amount more than what they would have been with the previous method.

In addition, the amount of the expenses included in cost of sales in the year ended March 31, 2006 was ¥14,417 million.

11. Other Income (Expenses): Other, Net

Other income (expenses): other, net in the consolidated statements of income comprised as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Gain on contribution of securities to the pension trust (a)	**¥ 1,375**	¥ —	¥ 12,901	**$ 13,722**
Gain on sales of marketable securities and investments in securities	**465**	884	4,380	**4,640**
Gain on sales of investments in affiliates	**292**	—	—	**2,914**
Gain on sales of subsidiaries' shares	**—**	—	277	**—**
Foreign exchange loss, net	**(11,549)**	(13,391)	(8,901)	**(115,260)**
Loss on impairment of fixed assets (b)	**(2,763)**	—	(3,008)	**(27,574)**
Loss on damages suit (c)	**(2,245)**	(2,398)	—	**(22,405)**
Loss on environmental measures (d)	**(2,167)**	—	—	**(21,626)**
Loss on sales of investments in affiliates	**(408)**	—	—	**(4,071)**
Loss on breach of the Antimonopoly Act (e)	**—**	(1,387)	(731)	**—**
Loss on the restructuring the commercial aircraft manufacturing business (f)	**—**	—	(15,816)	**—**
Loss on cleaning of ground pollution (g)	**—**	—	(1,054)	**—**
Loss on sales of subsidiaries' shares	**—**	—	(155)	**—**
Other, net	**(6,522)**	(7,433)	(4,039)	**(65,090)**
Total	**¥(23,522)**	¥(23,725)	¥(16,146)	**$(234,750)**

(a) "Gain on contribution of securities to the pension trust" resulted from additional contributions of investment securities to the pension trust.

(b) Loss on impairment of fixed assets

Because the profitability or market prices of some asset groups declined, the Company and its consolidated domestic subsidiaries reduced the book value of such assets to the recoverable amounts.

Assets are grouped mainly by units of business and significant assets for rent or those which are idle are treated separately.

Recoverable amounts were determined by net sales value, and net sales value was estimated by appraisal or property tax assessment.

Asset groups for which the Company and its subsidiaries recognized impairment losses for the year ended March 31, 2006 were as follows:

Function or status	Location	Type of asset
Assets for golf links	Tomakomai City, Hokkaido	Golf course and buildings, etc.
Idle assets	Chuo-ku, Kobe City, etc.	Land, etc.

Impairment losses for the year ended March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Land	¥ 618	$ 5,261
Golf course	1,086	9,245
Buildings, etc.	1,304	11,101
	¥3,008	$25,607

Asset groups for which the Company and its subsidiaries recognized impairment losses for the year ended March 31, 2008 were as follows:

Function or status	Location	Type of asset
Operating property	Sodegaura City, Chiba	Land
Idle assets	Sodegaura City, Chiba	Land, etc.
Operating property	Inami-cho, Kako-gun, Hyogo	Land

Impairment losses for the year ended March 31, 2008 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
Land	¥2,277	$22,725
Buildings, etc.	486	4,850
	¥2,763	$27,575

(c) "Loss on damages suit" is a provision for compensation in case the Company faces a payout of monetary damages.
(d) "Loss on environmental measures" is a provision for the disposal of PCB waste in accordance with the "Law Concerning Special Measures against PCB waste".
(e) "Loss on breach of the Antimonopoly Act" is due to assessments, etc. that the The Fair Trade Commission of Japan imposed on the Company with regard to bids for steel bridges, tunnel ventilations and water gates.
(f) Loss on the restructuring the commercial aircraft manufacturing business
As the aerospace business has been receiving requests for sharp increases in the production of commercial aircraft, including Boeing aircraft, the Company concluded it would be difficult to accept all of the requests. As a result of our reassessment of our corporate resources in this business, the Company reached a basic agreement with respect to the partial transfer of its manufacturing work on "EMBRAER 190" airplanes to Embraer—Empresa Brasileira de Aeronáutica S.A., which is our Brazilian co-developer of the airplane. This transfer gave rise to a loss of ¥15,816 million ($134,639 thousand) composed of expected charges for the transfer, a loss on impairment of work-in-process and expenses regarding a subsidiary named Kawasaki Aeronáutica Do Brasil Industria Ltda., which is expected to be liquidated.
The amount of loss comprised the following:

	Millions of yen	Thousands of U.S. dollars
Expected charges for the transfer	¥ 6,977	$ 59,394
Loss on impairment of work-in-process	6,259	53,282
Expenses for liquidation of a subsidiary	2,580	21,963
Total	¥15,816	$134,639

(g) "Loss on cleaning of ground pollution" arose from the ground pollution at the former Yachiyo works.

12. Income Taxes

Income taxes in Japan applicable to the Company and its consolidated domestic subsidiaries consist of corporation tax (national tax) and enterprise and inhabitants taxes (local taxes) which, in the aggregate, resulted in normal statutory tax rate of approximately 40.5 percent for each of the years ended March 31, 2008 and 2007.

The significant differences between the statutory and effective tax rates for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Statutory tax rate	**40.5%**	40.5%
Research and development tax credit	**(3.4)**	(6.7)
Other	**(0.8)**	(0.1)
Effective tax rate	**37.9%**	33.7%

Significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Accrued bonuses	**¥ 8,655**	¥ 7,958	**$ 86,377**
Retirement benefits	**44,835**	49,380	**447,455**
Provision for losses on uncompleted contracts	**3,285**	4,649	**32,784**
Allowance for doubtful receivables	**894**	904	**8,922**
Inventories—elimination of inter-company profits	**6,246**	4,811	**62,335**
Fixed assets—elimination of inter-company profits	**566**	571	**5,648**
Depreciation	**1,702**	1,328	**16,986**
Net operating loss carryforwards	**1,038**	1,728	**10,359**
Unrealized loss of marketable securities, investments in securities and other	**1,599**	1,912	**15,958**
Other	**21,437**	23,195	**213,944**
Gross deferred tax assets	**90,257**	96,436	**900,768**
Less valuation allowance	**(7,825)**	(9,397)	**(78,094)**
Total deferred tax assets	**82,432**	87,039	**822,674**
Deferred tax liabilities:			
Deferral of gain on sale of fixed assets	**5,222**	5,505	**52,115**
Net unrealized gain on securities	**6,590**	12,682	**65,768**
Unrealized gain on uncompleted contracts	**—**	429	**—**
Unrealized gain on contribution of securities to the pension trust	**6,552**	5,995	**65,389**
Other	**6,184**	6,301	**61,718**
Total deferred tax liabilities	**24,548**	30,912	**244,990**
Net deferred tax assets	**¥57,884**	¥56,127	**$577,684**

13. Retained Earnings ("Others")

(a) This decrease in retained earnings for the year ended March 31, 2006, mainly resulted from the cumulative effect of a new accounting standard in the United Kingdom for the unrecognized pension liability of a subsidiary, Kawasaki Precision Machinery (U.K.) Limited.
(b) The decrease in retained earnings for the year ended March 31, 2008, mainly resulted from the cumulative effect of a new accounting standard in the United States for the unrecognized pension liability of subsidiaries, Kawasaki Motors Manufacturing Corp., U.S.A. and Kawasaki Motors Corp., U.S.A.

14. Significant Noncash Transactions

The increases in common stock and capital surplus and the decrease in convertible bonds due to conversion of convertible bonds in the year ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Increase of common stock due to conversion	**¥1,141**	¥11,102	**$11,387**
Increase of capital surplus due to conversion	**1,113**	11,083	**11,108**
Decrease in convertible bonds due to conversion	**2,318**	22,236	**23,134**

The sum of the increases of common stock and capital surplus differed from the decrease in convertible bonds because the Company provided the bondholders with treasury stock instead of issuing new shares.

15. Earnings per Share

The basis of per share amount calculation for the year ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Basic earnings per share:				
Net income	**¥35,141**	¥29,772	¥16,468	**$350,709**
Earnings not attributable to common shareholders	**—**	—	(9)	**—**
Net income allocated to the common stocks	**35,141**	29,772	16,459	**350,709**
	Number of shares in thousands			
Weighted-average number of common stocks	**1,667**	1,571	1,469	

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Diluted earnings per share:				
Net income adjustment	**¥97**	¥186	¥250	**$968**
(Interest expense etc.)	**(97)**	(186)	(250)	**(968)**
	Number of shares in thousands			
Increased common stocks	**45**	167	299	
(Convertible bonds)	**(24)**	(43)	(70)	
(Zero coupon convertible bonds)	**(21)**	(124)	(229)	

16. Derivative Transactions

Since the Company and its consolidated subsidiaries operate internationally and have a substantial volume of export and import transactions, they enter into foreign currency exchange and option transactions in order to manage the risks of fluctuations in exchange rates in relation to foreign currency denominated assets, liabilities and future transactions.

The Company and its consolidated subsidiaries also enter into interest swap and option transactions to hedge against future fluctuations in interest rates on borrowings, primarily to fix, cap or collar interest rates on variable rate debt.

The Company and its consolidated subsidiaries purchase derivatives to hedge against risks of fluctuations in currency exchange rates and interest rates rather than for dealing or speculation.

For derivative transactions that meet the conditions for hedge accounting, the Company and its consolidated subsidiaries apply hedge accounting principles. Derivative transactions that meet the conditions for hedge accounting are required to be disclosed.

In order to minimize credit risk, the Company and its consolidated subsidiaries use only highly rated international financial institutions as counterparties to derivative transactions.

The Company and its consolidated subsidiaries have established policies that restrict the use of derivative instruments, including limits as to the purpose, nature, type and amount and that require reporting and review in order to control the use of derivatives and manage risk.

(a) Outstanding positions and recognized gains and losses at March 31, 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	Contract amount	Market value	Gain (loss)	Gain (loss)
Currency related contracts:				
Foreign exchange contracts:				
To sell	¥91,794	¥85,381	¥6,413	$64,001
To purchase	1,865	1,854	(11)	(109)
Option contracts:				
To sell	3,320	4	32	319
To purchase	3,040	34	(2)	(20)
Total			¥6,432	$64,191

(b) Outstanding positions and recognized gains and losses at March 31, 2007 were as follows:

	Millions of yen		
	Contract amount	Market value	Gain (loss)
Currency related contracts:			
Foreign exchange contracts:			
To sell	¥91,232	¥96,479	¥(5,247)
To purchase	5,478	5,535	57
Option contracts:			
To sell	1,444	126	(96)
To purchase	1,392	0	(30)
Total			¥(5,316)

17. Finance Leases

Finance lease information, as required to be disclosed in Japan, for the respective years was as follows:

(a) As lessee

The original costs of leased assets under non-capitalized finance leases and accumulated depreciation, assuming it is calculated by the straight-line method over the terms of the leases, as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Property, plant and equipment	¥39,178	¥35,822	$390,997
Accumulated depreciation	(12,845)	(12,388)	(128,193)
	¥26,333	¥23,434	$262,804
Intangible assets	¥ 1,110	¥ 1,362	$ 11,077
Accumulated amortization	(425)	(779)	(4,241)
	¥ 685	¥ 583	$ 6,836

The present values of future minimum lease payments under non-capitalized finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Current portion	¥ 5,737	¥ 5,345	$ 57,255
Noncurrent portion	22,691	19,535	226,457
Total	¥28,428	¥24,880	$283,712

Lease payments, "as if capitalized" depreciation and amortization and interest expense for non-capitalized finance leases were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	**2008**
Lease payments	¥6,028	¥5,349	¥4,789	$60,159
Depreciation and amortization	5,671	4,956	4,469	56,596
Interest	644	444	325	6,427

(b) As lessor
The original costs of leased assets under finance leases and accumulated depreciation as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Property, plant and equipment	¥2,250	¥1,989	$22,454
Accumulated depreciation	(827)	(918)	(8,253)
	¥1,423	¥1,071	$14,201
Intangible assets	¥ 88	¥ 43	$ 878
Accumulated amortization	(47)	(23)	(469)
	¥ 41	¥ 20	$ 409

The present values of future minimum lease payments to be received under finance leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current portion	¥ 638	¥ 519	$ 6,367
Noncurrent portion	1,500	1,142	14,970
Total	¥2,138	¥1,661	$21,337

Lease payments received, depreciation and amortization and interest on finance leases were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Lease payments received	¥379	¥285	¥295	$3,782
Depreciation and amortization	307	244	263	3,063
Interest	65	32	27	648

18. Operating Leases

The present values of future minimum lease payments under operating leases as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Current portion	¥330	¥380	$3,293
Non-current portion	143	400	1,427
Total	¥473	¥780	$4,720

19. Segment Information

(a) Information by industry segment
Industry segments of the Company and its consolidated subsidiaries are classified based on an internal company system: 1) Shipbuilding, 2) Rolling Stock & Construction Machinery, 3) Aerospace, 4) Gas Turbines & Machinery, 5) Plant & Infrastructure Engineering, 6) Consumer Products & Machinery, 7) Hydraulic Machinery and 8) Other.

The Shipbuilding segment manufactures and sells ships, submarines and maritime application equipment. Operations within the Rolling Stock & Construction Machinery segment include the production and sale of rolling stock & construction machines. Products manufactured and sold by the Aerospace segment include airplanes and helicopters. The Gas Turbines & Machinery segment manufactures and sells gas turbines, airplane engines and prime movers. Operations within the Plant & Infrastructure Engineering segment include the production and sale of boilers, chemical and cement plants and refuse incineration plants. Products manufactured and sold by the Consumer Products & Machinery segment include motorcycles, ATVs (All-Terrain Vehicles) and Jet Ski® water-crafts. Operations within the Hydraulic Machinery segment include the production and sale of hydraulic machines. Operations within the Other segment include the production and sale of merchandise, etc. The operations also involve trade, mediation of overseas sales and orders and other activities.

The Hydraulic Machinery segment, which had been included in “Other” until the year 2007, is presented separately for the year 2008 as its materiality has increased.

The information for the years 2007 and 2006 below has been retroactively restated based on the new industry segment categories.

	Millions of yen							
	2008							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	**¥ 141,397**	**¥ 1,568**	**¥ 142,965**	**¥ 139,712**	**¥ 3,253**	**¥ 134,577**	**¥ 2,459**	**¥ 4,161**
Rolling Stock & Construction Machinery	**171,739**	**727**	**172,466**	**165,293**	**7,173**	**161,585**	**3,579**	**6,454**
Aerospace	**237,349**	**1,644**	**238,993**	**228,117**	**10,876**	**281,517**	**6,232**	**6,154**
Gas Turbines & Machinery	**185,486**	**16,940**	**202,426**	**189,034**	**13,392**	**188,133**	**3,765**	**5,392**
Plant & Infrastructure Engineering	**142,547**	**13,747**	**156,294**	**145,455**	**10,839**	**132,174**	**1,926**	**1,318**
Consumer Products & Machinery	**433,963**	**8,244**	**442,207**	**422,537**	**19,670**	**315,309**	**13,517**	**19,367**
Hydraulic Machinery	**84,028**	**8,724**	**92,752**	**83,635**	**9,117**	**53,348**	**2,659**	**4,801**
Other	**104,588**	**40,234**	**144,822**	**142,469**	**2,353**	**164,445**	**1,699**	**1,674**
Total	**1,501,097**	**91,828**	**1,592,925**	**1,516,252**	**76,673**	**1,431,088**	**35,836**	**49,321**
Eliminations and corporate	**—**	**(91,828)**	**(91,828)**	**(92,065)**	**237**	**(52,318)**	**1,619**	**1,217**
Consolidated total	**¥1,501,097**	**¥ —**	**¥1,501,097**	**¥1,424,187**	**¥76,910**	**¥1,378,770**	**¥37,455**	**¥50,538**

	Millions of yen							
	2007							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	¥ 108,849	¥ 1,861	¥ 110,710	¥ 112,958	¥ (2,248)	¥ 117,832	¥ 2,169	¥ 1,194
Rolling Stock & Construction Machinery	184,283	500	184,783	171,613	13,170	172,615	2,660	8,253
Aerospace	269,108	1,687	270,795	257,395	13,400	279,574	5,291	3,029
Gas Turbines & Machinery	183,309	14,410	197,719	187,882	9,837	165,412	3,076	5,354
Plant & Infrastructure Engineering	122,062	19,670	141,732	144,163	(2,431)	141,472	1,816	996
Consumer Products & Machinery	403,702	9,184	412,886	385,323	27,563	303,730	10,539	12,828
Hydraulic Machinery	66,649	8,598	75,247	69,185	6,062	46,788	1,631	4,955
Other	100,657	40,434	141,091	137,546	3,545	159,432	1,519	1,177
Total	1,438,619	96,344	1,534,963	1,466,065	68,898	1,386,855	28,701	37,786
Eliminations and corporate	—	(96,344)	(96,344)	(96,588)	244	(28,875)	1,578	1,483
Consolidated total	¥1,438,619	¥ —	¥1,438,619	¥1,369,477	¥69,142	¥1,357,980	¥30,279	¥39,269

	Millions of yen							
	2006							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	¥ 109,697	¥ 1,428	¥ 111,125	¥ 112,833	¥ (1,708)	¥ 105,210	¥ 2,700	¥ 1,990
Rolling Stock & Construction Machinery	168,306	917	169,223	160,419	8,804	179,478	2,350	3,272
Aerospace	218,533	2,013	220,546	210,845	9,701	268,871	5,295	12,113
Gas Turbines & Machinery	161,431	16,937	178,368	171,564	6,804	140,900	2,804	2,893
Plant & Infrastructure Engineering	164,506	20,972	185,478	193,972	(8,494)	135,448	1,859	733
Consumer Products & Machinery	366,960	6,759	373,719	353,819	19,900	280,972	11,020	15,480
Hydraulic Machinery	46,260	11,510	57,770	53,546	4,224	32,145	957	2,959
Other	86,794	42,278	129,072	126,633	2,439	144,276	1,794	1,268
Total	1,322,487	102,814	1,425,301	1,383,631	41,670	1,287,300	28,779	40,708
Eliminations and corporate	—	(102,814)	(102,814)	(102,939)	125	(3,215)	1,772	1,016
Consolidated total	¥1,322,487	¥ —	¥1,322,487	¥1,280,692	¥41,795	¥1,284,085	¥30,551	¥41,724

	Thousands of U.S. dollars							
	2008							
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets	Depreciation and amortization	Capital expenditures
Shipbuilding	**$ 1,411,148**	**$ 15,649**	**$ 1,426,797**	**$ 1,394,331**	**$ 32,466**	**$ 1,343,084**	**$ 24,541**	**$ 41,527**
Rolling Stock & Construction Machinery	**1,713,962**	**7,255**	**1,721,217**	**1,649,631**	**71,586**	**1,612,625**	**35,719**	**64,411**
Aerospace	**2,368,752**	**16,407**	**2,385,159**	**2,276,617**	**108,542**	**2,809,551**	**62,196**	**61,417**
Gas Turbines & Machinery	**1,851,158**	**169,062**	**2,020,220**	**1,886,567**	**133,653**	**1,877,575**	**37,575**	**53,812**
Plant & Infrastructure Engineering	**1,422,625**	**137,196**	**1,559,821**	**1,451,647**	**108,174**	**1,319,102**	**19,222**	**13,154**
Consumer Products & Machinery	**4,330,968**	**82,275**	**4,413,243**	**4,216,936**	**196,307**	**3,146,796**	**134,900**	**193,283**
Hydraulic Machinery	**838,603**	**87,066**	**925,669**	**834,681**	**90,988**	**532,415**	**26,537**	**47,914**
Other	**1,043,792**	**401,537**	**1,445,329**	**1,421,845**	**23,484**	**1,641,167**	**16,955**	**16,708**
Total	**14,981,008**	**916,447**	**15,897,455**	**15,132,255**	**765,200**	**14,282,315**	**357,645**	**492,226**
Eliminations and corporate	**—**	**(916,447)**	**(916,447)**	**(918,812)**	**2,365**	**(522,135)**	**16,157**	**12,145**
Consolidated total	**$14,981,008**	**$ —**	**$14,981,008**	**$14,213,443**	**$767,565**	**$13,760,180**	**$373,802**	**$504,371**

(b) Information by geographic area

	Millions of yen					
	2008					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	**¥1,058,487**	**¥ 307,546**	**¥1,366,033**	**¥1,291,102**	**¥74,931**	**¥1,103,514**
North America	**267,560**	**25,202**	**292,762**	**293,276**	**(514)**	**191,075**
Europe	**131,608**	**5,321**	**136,929**	**132,449**	**4,480**	**83,928**
Asia	**33,297**	**24,752**	**58,049**	**56,597**	**1,452**	**37,917**
Other areas	**10,145**	**247**	**10,392**	**10,119**	**273**	**3,335**
Total	**1,501,097**	**363,068**	**1,864,165**	**1,783,543**	**80,622**	**1,419,769**
Eliminations and corporate	**—**	**(363,068)**	**(363,068)**	**(359,356)**	**(3,712)**	**(40,999)**
Consolidated total	**¥1,501,097**	**¥ —**	**¥1,501,097**	**¥1,424,187**	**¥76,910**	**¥1,378,770**

	Millions of yen					
	2007					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥1,042,993	¥ 278,960	¥1,321,953	¥1,256,538	¥65,415	¥1,093,598
North America	261,254	18,017	279,271	277,533	1,738	202,539
Europe	98,842	4,320	103,162	100,783	2,379	70,360
Asia	22,690	18,737	41,427	40,728	699	26,081
Other areas	12,840	187	13,027	12,808	219	2,869
Total	1,438,619	320,221	1,758,840	1,688,390	70,450	1,395,447
Eliminations and corporate	—	(320,221)	(320,221)	(318,913)	(1,308)	(37,467)
Consolidated total	¥1,438,619	¥ —	¥1,438,619	¥1,369,477	¥69,142	¥1,357,980

	Millions of yen					
	2006					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	¥ 986,266	¥ 247,228	¥1,233,494	¥1,192,245	¥41,249	¥1,074,688
North America	222,477	16,588	239,065	237,651	1,414	159,169
Europe	80,818	4,053	84,871	83,308	1,563	63,254
Asia	24,800	16,975	41,775	40,315	1,460	24,285
Other areas	8,126	141	8,267	8,893	(626)	7,324
Total	1,322,487	284,985	1,607,472	1,562,412	45,060	1,328,720
Eliminations and corporate	—	(284,985)	(284,985)	(281,720)	(3,265)	(44,635)
Consolidated total	¥1,322,487	¥ —	¥1,322,487	¥1,280,692	¥41,795	¥1,284,085

	Thousands of U.S. dollars					
	2008					
	External sales	Intersegment sales	Total sales	Operating expenses	Operating income (loss)	Total assets
Japan	**$10,563,743**	**$ 3,069,321**	**$13,633,064**	**$12,885,250**	**$747,814**	**$11,013,114**
North America	**2,670,259**	**251,517**	**2,921,776**	**2,926,906**	**(5,130)**	**1,906,936**
Europe	**1,313,453**	**53,104**	**1,366,557**	**1,321,846**	**44,711**	**837,605**
Asia	**332,305**	**247,026**	**579,331**	**564,840**	**14,491**	**378,413**
Other areas	**101,248**	**2,465**	**103,713**	**100,988**	**2,725**	**33,283**
Total	**14,981,008**	**3,623,433**	**18,604,441**	**17,799,830**	**804,611**	**14,169,351**
Eliminations and corporate	**—**	**(3,623,433)**	**(3,623,433)**	**(3,586,387)**	**(37,046)**	**(409,171)**
Consolidated total	**$14,981,008**	**$ —**	**$14,981,008**	**$14,213,443**	**$767,565**	**$13,760,180**

North America includes mainly the U.S.A. and Canada. Europe includes mainly the Netherlands, the United Kingdom and Germany. Asia includes Thailand, Indonesia, the Philippines and Korea. Other areas include mainly Australia and Brazil.

(c) Corporate assets

Included in eliminations and corporate under total assets in (a) and (b) above are corporate assets of ¥115,076 million ($1,148,463 thousand), ¥124,152 million and ¥110,476 million at March 31, 2008, 2007 and 2006, respectively, which mainly comprised cash and time deposits of the Company and property, plant, equipment and intangible assets of the Company's head office.

(d) Overseas sales

Overseas sales consist of the total sales of the Company and its consolidated subsidiaries made outside of Japan. Overseas sales information for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen	%	Millions of yen	%	Millions of yen	%	Thousands of U.S. dollars
	2008		2007		2006		**2008**
	Overseas sales	Against net sales	Overseas sales	Against net sales	Overseas sales	Against net sales	Overseas sales
North America	**¥358,717**	**23.9%**	¥336,765	23.4%	¥282,149	21.3%	**$3,580,010**
Europe	**153,613**	**10.2**	119,408	8.3	109,060	8.2	**1,533,064**
Asia	**161,906**	**10.7**	186,066	12.9	197,503	14.9	**1,615,828**
Other areas	**148,315**	**9.9**	135,506	9.4	107,103	8.2	**1,480,190**
Total	**¥822,551**	**54.7%**	¥777,745	54.0%	¥695,815	52.6%	**$8,209,092**

North America includes mainly the U.S.A. and Canada. Europe includes mainly the United Kingdom, France, the Netherlands, Germany and Italy. Asia includes China, Korea, Taiwan, Vietnam and the Philippines. Other areas include mainly Panama, Brazil, the Bahamas and Australia.

20. Additional Information

(a) Until for the year ended March 31, 2005, the Company and its consolidated domestic subsidiaries provided for retirement and severance benefits for directors and statutory auditors principally at 50 percent of the amount required if they had retired at the balance sheet date. Effective April 1, 2005, the Company and its consolidated domestic subsidiaries terminated this plan and changed its presentation from "Directors' and statutory auditors' retirement and severance benefits" to "Other" in "Long-term liabilities" in the consolidated balance sheet as of March 31, 2006.

(b) Effective April 1, 2007, the Company changed the accounting periods for consolidation of 2 subsidiaries (Kawasaki Robotics (USA) Inc. and Kawasaki Construction Machinery Corp. of America) from the 12 months ended December 31 to the 12 months ended March 31 to improve transparency and quality of the consolidated financial statements.

21. Subsequent Events

On June 25, 2008, the following appropriation of nonconsolidated retained earnings was approved at the ordinary meeting of shareholders of the Company:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥5.0 per share)	¥8,341	$83,244

22. Other Matters

(a) On June 27, 2006, the Company received a decision from the Japan Fair Trade Commission ordering correction of unfair bids that the Company may have committed on construction contracts for garbage incineration facilities from 1994 through 1998. On July 27, 2007, the Company appealed the decision to the Tokyo High Court demanding revocation of the decision. On April 17, 2007, the Company also sought an inquiry objecting to an order to pay penalties of ¥5,163 million ($51,527 thousand) which the Fair Trade Commission imposed on March 28, 2007.

(b) On November 16, 2007, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥1,364 million ($13,613 thousand) to Kobe City in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Kobe City which the Company was awarded in 1995. On November 29, 2007, the Company appealed the judgment to the Osaka High Court, but the Company received a judgment requiring reimbursement of ¥1,637 million ($16,337 thousand), which was equivalent to 6% of the order price to Kobe City on October 30, 2007. On November 10, 2007, the Company appealed the judgment to the Supreme Court.

In addition, the Company reserved an amount for the reimbursement and interest payment provision for losses on damages suit in the year ended March 31, 2008.

(c) On April 25, 2007, the Company received a judgment from the Fukuoka District Court requiring reimbursement of ¥2,088 million ($20,838 thousand) jointly with Hitachi Zosen Corporation and 3 other companies to Fukuoka City in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Fukuoka City which Hitachi Zosen Corporation was awarded in 1996. On May 9, 2007, the Company appealed the judgment to the Fukuoka High Court, but the Court dismissed the appeal on November 30, 2007. On December 13, 2007, the Company appealed the judgment to the Supreme Court.

(d) On November 16, 2007, the Company received a judgment from the Kobe District Court requiring reimbursement of ¥530 million ($5,289 thousand) jointly with Hitachi Zosen Corporation and 4 other companies in a suit brought by citizens of the city claiming that the Company unfairly bid on a construction contract for a garbage incineration facility in Amagasaki City which Hitachi Zosen Corporation was awarded in 1996. On November 29, 2007, the Company appealed the judgment to the Osaka High Court and won the case on November 30, 2007. On December 7, 2007, the citizens of Amagasaki City, the complainants, appealed the judgment to the Supreme Court.

Independent Auditors' Report

To the Shareholders and Board of Directors of
Kawasaki Heavy Industries, Ltd.:

We have audited the accompanying consolidated balance sheets of Kawasaki Heavy Industries, Ltd.(the "Company") and its consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company and its consolidated subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

(1) As discussed in Note 2(o) to the consolidated financial statements, effective April 1, 2005, the Company and its consolidated domestic subsidiaries adopted a new accounting standard for impairment of fixed assets.
(2) As discussed in Note 2(w) to the consolidated financial statements, effective April 1, 2006, the Company and its consolidated subsidiaries adopted a new accounting standard for the presentation of net assets in the balance sheet.
(3) As discussed in Note 10 to the consolidated financial statements, effective April 1, 2006, the Company changed its method of accounting for expenses to develop new models in the consumer product and machinery business.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. These translations of yen amounts into U.S. dollar amounts were made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Kobe, Japan
June 23, 2008

KPMG AZSA & Co., an audit corporation incorporated
under the Japanese Certified Public Accountants Law,
is the Japan member firm of KPMG International,
a Swiss cooperative.

DIRECTORS

Masamoto Tazaki
Chairman

Tadaharu Ohashi*
President

Akira Matsuzaki*
Senior Executive Vice President

Chikashi Motoyama*
Senior Vice President

Masashi Segawa*
Senior Vice President

Shinichi Tamba*
Senior Vice President

Shuji Mihara*
Senior Vice President

Satoshi Hasegawa*
Senior Vice President

Mitsutoshi Takao*
Senior Vice President

CORPORATE AUDITORS

Akira Tanoue
Nobuyuki Okazaki
Hiroshi Kawamoto**
Kenzo Doi**

* Representative Director
** Outside Auditor

EXECUTIVE OFFICERS

President

Tadaharu Ohashi

Senior Executive Vice President

Akira Matsuzaki
General Manager
Corporate Technology Division

Senior Vice Presidents

Chikashi Motoyama
President
Aerospace Company

Masashi Segawa
President
Rolling Stock Company

Shinichi Tamba
President
Consumer Products & Machinery Company

Shuji Mihara
Senior Manager
Corporate Planning Department

Satoshi Hasegawa
President
Gas Turbines & Machinery Company

Mitsutoshi Takao
Senior Manager
Finance & Accounting Department

Managing Executive Officers

Nobumitsu Kambayashi

Kyohei Matsuoka

Shigeru Murayama

Executive Officers

Akira Hattori

Yuichi Asano

Toru Yamaguchi

Sosuke Kinouchi

Yoshio Kawamura

Seiji Yamashita

Takeshi Sugawara

Sumihiro Ueda

Wataru Kanamori

Takeshi Watanabe

Yasuo Murata

Minoru Makimura

Tamaki Miyatake

Shuichi Yamanaka

Masahiko Hirohata

Shinsuke Tanaka

Yutaka Shimomura

(As of June 25, 2008)

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
SHIPBUILDING				
Kawasaki Shipbuilding Corporation	Japan	10,000	100.00	Design, manufacture, sale, and maintenance of commercial and naval vessels and marine application equipment
Nantong COSCO KHI Ship Engineering Co., Ltd.†	China	CNY1,462,200*	50.00	Manufacture and sale of ships
ROLLING STOCK & CONSTRUCTION MACHINERY				
Kawasaki Machine Systems, Ltd. ★ ❊	Japan	743	100.00	Sale and repair of construction machinery, gas turbine generators, and industrial robots
Alna Yusoki-Yohin Co., Ltd.	Japan	400	100.00	Manufacturing and sales of doors/window frames for train cars and buses, signs for bus stops, advertising materials, bus shelters, automobile sign lights, various types of panels, and waiting rooms
Nichijo Manufacturing Co., Ltd.	Japan	120	75.02	Manufacture and sale of snowplows
Kawasaki Rail Car, Inc.	U.S.A.	US$60,600*	100.00	Engineering, manufacture, sale, and after-sales service of rolling stock in the United States
Kawasaki Construction Machinery Corp. of America	U.S.A.	US$8,000*	100.00	Manufacture and sale of construction machinery in the United States
EarthTechnica Co., Ltd.†	Japan	1,200	50.00	Design, manufacture, and sale of crushers, grinders, sorters, and other equipment
AEROSPACE				
NIPPI Corporation	Japan	6,048	100.00	Manufacture, maintenance, and modification of aircraft and components; manufacture of rocket components, aerospace equipment, targeting systems, nondestructive testing systems, and industrial fans
Nippi Kosan Co., Ltd.	Japan	120	100.00	Design and supervision of building construction work, sale of herbicidal soil, manufacturing and sale of rust-resistant packaging materials, and insurance agency business
GAS TURBINES & MACHINERY				
Kawasaki Thermal Engineering Co., Ltd.	Japan	1,460	83.59	Manufacture, sale, and installation of general-purpose boilers and air-conditioning equipment
Wuhan Kawasaki Marine Machinery Co., Ltd.	China	1,100	55.00	Manufacture, sale, and after-sales service of Kawasaki-brand azimuth thrusters, side thrusters, and other machinery
Tonfang Kawasaki Air-Conditioning Co., Ltd.†	China	US$9,673*	50.00	Manufacture, sale, and maintenance of absorption cooling and heating machinery and refrigeration equipment

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
PLANT & INFRASTRUCTURE ENGINEERING				
Kawasaki Plant Systems, Ltd.	Japan	8,500	100.00	Design, manufacture, installation, maintenance, and sale of various types of industrial plants
JP Steel Plantech Co.†	Japan	1,995	24.81	Sale of and engineering services for steelworks plants and equipment
Shanghai COSCO Kawasaki Heavy Industries Steel Structure Co., Ltd.†	China	US$29,800*	45.00	Manufacture and sale of steel structures
CONSUMER PRODUCTS & MACHINERY				
Kawasaki Metal Industries, Ltd.	Japan	350	100.00	Manufacture, processing, and assembly of various steel products
Kawasaki Motors Manufacturing Corp., U.S.A. ●	U.S.A.	US$70,000*	100.00	Manufacture of motorcycles, ATVs, personal watercraft, small gasoline engines, industrial robots, and rolling stock
Kawasaki Motors Corp., U.S.A.	U.S.A.	US$65,900*	100.00	Distribution of motorcycles, ATVs, personal watercraft, and small gasoline engines in the United States
Kawasaki Motors Finance Corporation	U.S.A.	US$10,000*	100.00	Inventory financing for dealers of Kawasaki Motors Corp., U.S.A.
KM Receivables Corporation	U.S.A.	US$100	100.00	Management of accounts receivable of Kawasaki Motors Finance Corporation
Canadian Kawasaki Motors Inc.	Canada	C$2,000*	100.00	Distribution of motorcycles, ATVs, and personal watercraft in Canada
Kawasaki Motors Europe N.V.	Netherlands	€14,093*	100.00	Sole distribution of motorcycles, ATVs, personal watercraft, and small gasoline engines in Europe
Kawasaki Motors Racing B.V.	Netherlands	€3,000*	100.00	Management, purchasing and storage of related materials, and back-office work of motoGP races
Kawasaki Motors Pty. Ltd.	Australia	A$2,000*	100.00	Distribution of motorcycles, ATVs, and personal watercraft in Australia
P.T. Kawasaki Motor Indonesia	Indonesia	US$40,000*	83.00	Manufacture and distribution of motorcycles in Indonesia
Kawasaki Motors (Phils.) Corporation	Philippines	P101,430*	50.001	Manufacture and distribution of motorcycles in the Philippines
Kawasaki Motors Enterprise (Thailand) Co., Ltd.	Thailand	B1,900,000*	100.00	Manufacture and distribution of motorcycles in Thailand
Kawasaki Robotics (U.S.A.), Inc.	U.S.A.	US$1,000*	100.00	Sale and after-sales service of industrial robots in the United States
Kawasaki Robotics (UK) Ltd.	U.K.	£917*	100.00	Sale and after-sales service of industrial robots in the U.K. and Ireland
Kawasaki Machine Systems Korea, Ltd.	Korea	W1,500**	100.00	Sale and after-sales service of industrial robots and robot systems
Kawasaki Robotics (Tianjin) Co., Ltd.	China	CNY13,174*	100.00	Sale and after-sales service of industrial robots in China

Name	Location	Paid-in Capital (Millions of yen, unless otherwise noted)	Equity (% ownership by KHI Group)	Principal Businesses
HYDRAULIC MACHINERY				
Kawasaki Precision Machinery Ltd.	Japan	3,000	100.00	Design, manufacture, sale, after-sales service, and maintenance for hydraulic machinery and equipment, electric-powered devices, and control systems
Kawasaki Precision Machinery (U.S.A.), Inc.	U.S.A.	US$5,000*	100.00	Manufacture and sale of hydraulic products
Kawasaki Precision Machinery (U.K.) Limited	U.K.	£5,000*	100.00	Manufacture and sale of hydraulic products
Flutek, Ltd.	Korea	W1,310**	50.38	Manufacturing, sales, and repair of hydraulic equipment, marine equipment, and other machinery
Kawasaki Precision Machinery (China) Ltd.	China	500	100.00	Assembly of hydraulic pumps and motors for construction machinery
OTHER				
Kawajyu Shoji Co., Ltd.	Japan	600	70.00	Trading
Kawasaki Hydromechanics Corporation	Japan	436	100.00	Manufacture, sale, and installation of hydraulic presses and other hydraulic equipment
Kawasaki Life Corporation	Japan	400	100.00	Administration of Company welfare facilities; real estate sales, leasing, and construction; insurance representation, administration and maintenance, leasing, and provision of loans
Kawasaki Heavy Industries (U.K.) Ltd.	U.K.	£500*	100.00	Sale of KHI products in various countries in Europe (principally the U.K.), the Middle East, and Africa; provision of order intermediation services
Kawasaki Heavy Industries (U.S.A.), Inc.	U.S.A.	US$600*	100.00	Responsible for sales and acting as intermediary in North America for orders of KHI products and for providing various types of engineering support
Kawasaki do Brasil Industria e Comercio Ltda.	Brazil	R1,136*	100.00	Responsible for sales and acting as intermediary in Brazil and the rest of Latin America for orders of KHI products and for providing various types of engineering business services

* Monetary unit in thousands
** Monetary unit in millions
† Affiliate accounted for using equity method

Partially included in:
● Rolling Stock & Construction Machinery
★ Gas Turbines & Machinery
❊ Consumer Products & Machinery

(As of March 31, 2008)

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(As of August 1, 2008)

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Founded:	1878
Incorporated:	1896
Paid-in Capital:	¥104,328,628,664
Number of Shares Issued:	1,669,629,122 shares
Number of Shareholders:	179,607
Number of Employees:	30,563
Stock Exchange Listings:	Tokyo, Osaka, Nagoya

Method of Publication of Notices:
http://www.khi.co.jp
The method of publication of notices of the Corporation shall be made electronically. Provided, if the Corporation is unable to make an electronic publication of notice due to an accident or other unavoidable reason, the notice shall be inserted in the *Nihon Keizai Shimbun*.

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ADR Facility:
KHI has a sponsored American Depository Receipt (ADR) facility. ADRs are traded in the over-the-counter (OTC) market in the United States under CUSIP number 486 359 20 1 with each ADR representing four ordinary shares.

ADR Depository:
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(As of March 31, 2008)

Printed in Japan
ISSN 0287 - 1793

This annual report is printed on recycled paper with soy ink by waterless printing.